Will PNG be on the anti-money laundering grey list? — Part 2

by Michael Kabuni and Grant Walton

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Nothing in life is inevitable, aside from death and (for most people) taxes. Yet, as we explored in our previous blog, there is in our view a range of factors that suggest PNG may well find itself yet again on the Financial Action Task Force's (FATF's) grey list for failing to comply with, and implement, its 40 recommendations on anti-money laundering and counter-terrorism financing. In this blog we look at some of the ramifications of grey-listing for PNG.

FATF frames grey-listing as an opportunity for countries to fix gaps in their anti-money laundering/counter-terrorism financing (AML/CTF) systems by engaging with experts who "offer guidance on where the country should focus its often-limited resources to make the most significant impact to reduce illicit financial flows".

PNG responded to appearing on the grey list in 2014 by implementing a series of legal reforms in 2015. These included amendments to the *Criminal Code 1974* to incorporate money-laundering provisions, amendments to the *Proceeds of Crime Act 2005*, and the enactment of the *AML/CTF Act 2015* and the *Sanctions Act 2015*. In addition, the AML/CTF National Coordination Committee (NCC) was established to oversee efforts, and the Financial Intelligence Unit was moved from the police department to the Central Bank, granting it greater independence. These reforms resulted in PNG's being removed from the grey list in 2016.

In 2025, grey-listing might just have a similar impact — shaming PNG into adopting more stringent AML/CTF measures, particularly those that focus on key risk areas (such as logging) and pushing the country's Independent Commission Against Corruption and other integrity agencies to prove their worth.

However, grey-listing can have more far-reaching consequences.

Foreign companies often use AML/CTF evaluations as part of their risk assessments when deciding whether to invest in a country. Developing nations perceived as posing high AML/CTF risks can not only lose potential investments but could also see foreign companies already operating within their borders exit the market, especially foreign financial institutions.

Correspondent banking relationships can suffer as international banks cut ties to avoid being penalised for dealing with countries with poor AML/CTF standards. The most severe consequences are typically associated with being “blacklisted” — as was the case with Nauru, where foreign-owned banks closed and left the country, leaving Nauru without any banking services. However, grey-listing can also send a powerful message to finicky investors.

When PNG was grey-listed in 2014, the immediate impact on business appeared minimal. The ExxonMobil-led PNG LNG project was negotiated when PNG was first warned of grey-listing in 2011 and construction continued even while PNG was grey-listed in 2014.

Today, PNG can ill afford to send any more negative signals to the market. The government is betting on several resource projects, including Papua LNG, P’nyang LNG, Wafi-Golpu and Freda River Mines. Being placed on the grey list could halt or delay these projects. Poor AML/CTF assessments can also make it difficult to obtain external financing, on which PNG relies to supplement its revenues.

The Asia Pacific Group’s most recent assessment of PNG’s AML/CTF regime called for the country to compel banks to, among other things, tighten up customer due diligence (CDD) requirements, which could include enforcing stricter rules around the forms of identification required to open bank accounts. While this appears to be a good step towards financial transparency, in PNG it could reduce access to banking services for the poor and marginalised.

About 85% of PNG’s population remains in rural areas — the majority of them have no formal identification. Out of the roughly 11 million people in PNG, only about three million have national identification cards. Two million adults have no bank account, which limits their ability to save, start businesses and get loans. This is why CDD requirements in PNG could well undermine efforts to increase the percentage of the population who can access banking services.

Perhaps the biggest issue with the FATF requirements, however, is the — how do we say this politely — hypocrisy.

The real champions of money laundering are to be found in the global north. This includes the United States, Singapore and the United Kingdom where prosecutors have recently shown that billions of dollars have been laundered.

Given that it tops the Tax Justice Network's Financial Secrecy Index, we would expect that the United States would be firmly on the FATF's blacklist. Of course, that's not the way the world, nor FATF (whose standards were developed by G7 nations and whose relatively small membership is dominated by countries of the global north), works. Despite countries of the global north being the main destinations for money laundering, poor countries dominate FATF's grey and black lists.

What's worse is that critics point out that there is no clear evidence that AML/CTF standards have reduced money laundering or terrorism financing.

Given all this, should PNG be grey-listed? If it helps in the fight against corruption and bribery that significantly undermines the government's ability to provide services to its people, then by all means.

However, policymakers should understand and respond to the unintended consequences of such measures.

Moreover, if FATF was really interested in going after the money launderers, we suggest they send their next assessment team to the United States, and then to other high-risk jurisdictions in the global north. In the global scheme of things, that's where the real AML/CTF deficiencies lie.

Read Part 1.

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