12

Incremental Costs and Benefits of Enhancing the IFS Regulatory Regime in Vanuatu

12.1 Incremental costs of adopting new international regulatory standards

The public sector in Vanuatu has had to recruit new staff and retrain existing staff to meet the new international regulatory standards. The private sector has also had to recruit new staff and retrain existing staff to fulfil the new due diligence and suspicious transactions reporting requirements. Where new staff members have been recruited, new office space has had to be allocated and additional hardware and software systems have had to be bought or licensed. Some offices have also bought new IT systems such as 'World Check' in order to be able to satisfy the new international regulatory standards. Overall administrative overheads have increased for both the private and public sectors in Vanuatu.

Vanuatu Financial Services Commission

The country's regulatory bodies have also borne increased compliance costs in accommodating the external demands for enhanced regulation. The Vanuatu Financial Services Commission (VFSC) has had to take on new responsibilities, and in doing so has had to create a new section conducting supervision and compliance with four new staff. To accommodate the growing number of staff and resources needed to house them, the VFSC has had to move into a bigger building, which cost Vt5 (US$43,163 as at 1 July 2004) million in 2004 and Vt7 million (US$60,428 as at 1 July 2004) in 2005. The overall renovation and extension to the building cost Vt47 million (US$405,732 as at 1 July 2004), which was funded from the Commission's reserves. In 2003, it cost the VFSC Vt4 million to hire more officers to regulate the area of money laundering, which increased to Vt5 million in 2004 and Vt7 million in 2005. It spent Vt1 million in both 2004 and 2005 on training new staff in the area of news systems installed for anti-money laundering (AML) and countering the finance of terrorism (CFT) transactions. Moreover, staff were sent to special conferences on AML and CFT, which cost Vt1.5 million in 2003, Vt2 million in 2004 and Vt3 million in 2005.

The VFSC has had to rely on aid from other countries, both in the form of financial and technical assistance. For example, in 2003 Vt6 million was provided by the Asian

Development Bank (ADB) and the IMF for technical assistance and advisers; this increased to Vt12 million in 2004 and Vt18 million in 2005. A further Vt3 million was provided in 2003 for foreign legal advisers; this increased to Vt6 million in 2004 and Vt8 million in 2005.

In 2005 the VFSC installed an additional hardware system to meet suspicious transaction reporting (STR) and know your customer (KYC) requirements, which cost Vt3 million. It spent an additional Vt750,000 in 2003, Vt1.5 million in 2004 and Vt3 million in 2005 to recruit draftpersons to draft legislation to comply with AML/CFT requirements. The cost of additional internal audit requirements for the new STR/KYC was Vt1 million in 2003 and increased to Vt3 million in 2004 and Vt5 million in 2005. The cost of additional external audit requirements for the new STR/KYC was Vt500,000 in 2004 and increased to Vt1 million in 2005[1] . The VFSC contributed Vt1 million in both 2004 and 2005 towards the budget of the Financial Intelligence Unit (FIU); however, the government has now taken over the funding of the FIU.

The Reserve Bank of Vanuatu

The Reserve Bank of Vanuatu (RBV) has also had to take on demanding new duties as a result of the multilateral initiatives. The government has had to increase the RBV's budget to cope with the increased costs of regulation. For example, the RBV has spent Vt400,000 per year since 2000 to train four staff working in the area of STR/KYC in relation to banks. It also sent staff overseas for training in these areas, although the costs for this were covered by AusAID (the Australian government's overseas aid programme). For other external trainings, the RBV has spent about Vt1 million per year since 2003. It received technical assistance for the purposes of AML/CFT, which was funded by the IMF. The RBV recruited seven persons in 2002 to act as domestic regulators, which cost approximately Vt7 million. It also planned to recruit a further five persons for this purpose in 2006. New equipment for these staff cost Vt600,000 in 2002, and Vt300,000 each year from 2003 to 2005. The Reserve Bank also contributes towards the operations of the FIU and provided Vt2 million in both 2004 and 2005 in this regard[2] . In order to house the bigger banking supervision department, office space has had to be renovated, which cost Vt500,000 and was borne by the RBV.

Financial Intelligence Unit

The FIU has received assistance from the VFSC and the RBV budgets, but has also had to rely on international aid to help meet the new regulatory demands. From 2000 to 2003, there were two persons from the State Law Office (SLO) working part-time for the FIU, which cost about Vt1 million. AusAID initially provided the equipment to set up the FIU department. In 2004, a dedicated FIU office was set up and a full-time employee recruited, costing about Vt1 million per annum. At this stage, more equipment was needed by the FIU to be able to provide training for private financial institutions in the area of AML/CFT. The French government and the United Nations Office for Drugs and Crime (UNODC) provided for and funded seven computers for this purpose. In 2005, the British High Commission donated a laptop, scanner, desktop computer and printer to the FIU. Early in 2006, AusAID provided another computer for the FIU database.

In 2005, another full-time employee was recruited, increasing staff costs to Vt2 million. To accommodate the two staff members of the FIU, new office space had to be created, costing Vt1.5 million for the extension to the building and an increase in the rent of Vt540,000 per year. Between 2000 to 2003 the staff of the FIU attended special conferences on AML/CFT, which cost about Vt400,000; this cost Vt1 million each year in 2004 and 2005. In 2005, AusAID funded one officer of the FIU to receive specialist training in Singapore and to become the specialist enforcement officer for AML/CFT for Vanuatu. About Vt800,000 was spent between 2000 to 2003 to train the staff on new hardware and software systems for AML/CFT; a further Vt500,000 was spent on this between 2004 and 2005. External technical advisers were also needed to help with setting up the office and assisting in AML/CFT matters, these positions being funded by the IMF. The IMF also funded the cost of additional external audit requirements for the new STR/KYC regime, which have been approximately Vt4 million since 2004[3]. In 2006, further offers of assistance were made by the ADB, FIRST and the EU. FIRST has proposed to complete the Trust and Company Service Providers and Trust bills, while the EU has proposed to look at the issue of governance in the areas of finance, tax and the judiciary.

Table 12.1 One-off costs for the public sector

	RBV	*VFSC*	*FIU*
New building/extension to building	Vt500,000	Vt47m	Vt1.5m
Additional computer hardware/software for STR/KYC		Vt3m	
New equipment (laptop, desktop, scanner, printer)			Vt400,000

Table 12.2 External technical assistance awarded to the public sector

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
VFSC				Vt6m – technical assistance/ advisers; VT3m – foreign legal advisers	Vt12m – technical assistance/ advisers VT6m – foreign legal advisers	Vt18m – technical assistance/advisers VT8m – foreign legal advisers
RBV	Vt2m for external adviser	Vt2m for technical adviser	Vt13m for resident technical advisers	Vt13m for resident technical advisers	Vt13m for resident technical advisers VT1.8m for database expert	Vt1.5m for foreign technical advisers
FIU					Vt1.8m for setting up office, assistance in AML/CFT matters VT1.8m for drafting purposes	Vt1.8m for drafting purposes

Table 12.3 Recurring costs (VFSC)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Recruit new staff				Vt4m	Vt5m	Vt7m
Train staff in AML/CFT					Vt1m	Vt1m
Special conferences on AML/CFT				Vt1.5m	Vt2m	Vt3m
Recruit draftpersons to draft AML/CFT laws				Vt750,000	Vt1.5m	Vt3m
Internal audit requirements for STR/KYC				Vt1m	Vt3m	Vt5m
External audit requirements for STR/KYC					Vt500,000	Vt1m
Contribution towards FIU budget					Vt1m	Vt1m

Table 12.4 Recurring costs (RBV)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Recruit new staff (salary)				Vt7m	Vt7m	Vt7m
Train staff in STR/KYC	Vt400,000	Vt400,000	Vt400,000	Vt400,000	Vt400,000	Vt400,000
External trainings on AML/CFT				Vt1m	Vt1m	Vt1m
New equipment			Vt600,000	Vt300,000	Vt300,000	Vt300,000
Contribution towards FIU budget					Vt2m	Vt2m

Table 12.5 Recurring costs (FIU)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Recruit new staff (salary)	Vt1m	Vt1m	Vt1m	Vt1m	Vt1m	Vt2m
Train staff in STR/KYC					Vt400,000	Vt1m
Specialist trainings on AML/CFT						Vt1m
Train staff on new software/hardware for AML/CFT	Vt800,000	Vt500,000				
Contribution towards FIU budget					Vt2m	Vt2m

IFS service providers

International financial services providers, too, have had to shoulder added costs due to the new regulatory requirements. Banks, accounting and law firms, and those providing corporate and trust services have faced an increase in operating costs. This has been due to the added requirements of the KYC regime and STR checks.

The commercial banks reported that they did not experience any significant new incremental costs as a direct result of the new regulatory requirements. This was because two of the banks are associated with larger foreign banks (ANZ and Westpac, both based in Australia) and have had to implement international KYC requirements before Vanuatu was required to do so. For example, these banks had already introduced new IT system hardware or software to better regulate client information by 2000. The third bank, Vanuatu National Bank, maintains a very small number of clients in the offshore sector and the costs associated with the changes in recent years have not been significant enough to cause concern to this particular bank[4].

The offshore banks surveyed reported that they faced an increase in costs due to the new regulatory requirements, but no specific figures were provided. However, they also pointed out that these are costs that it is necessary to bear if they wish to continue operating in competition with other IFCs[5]. If the country had not introduced recent reforms (expensive as they are) it might be that foreign customers onshore would be progressively restricted from access to Vanuatu's IFS.

The accounting firms that operate within Vanuatu's IFC experienced a significant increase in operating costs. One particular firm had to retrain (in-house) its existing staff in the areas of STR, which cost about Vt863,652 (US$7,525), as well as spending Vt12,954,786 (US$112,876) on enhanced KYC procedures between 2003 and 2005. As well as these direct monetary costs, there were additional indirect costs in terms of staff spending time away from their other responsibilities. Another firm had to appoint a person to carry out STR/KYC requirements on a half-day basis, which cost Vt1 million in 2004. In relation to extra space needed to house new staff, only one firm faced this problem: it spent Vt240,000 in increased rental costs.

Most of the firms surveyed reported that they sent staff to specialised conferences on AML/CFT, which cost Vt9 million from 2000 to 2005. Some of the firms invested in new systems of hardware and software for AML/CFT which cost about Vt400,000. All firms surveyed reported that they experienced additional costs of compliance relating to AML/CFT. While this figure was as low as VT2 million for some, it was more than Vt6 million per year since 2000 for some others. One firm in particular experienced a significant increase in this area in 2004 (Vt13 million) and 2005 (Vt18 million). While most firms did not face any extra costs due to additional internal/external audit requirements, one firm experienced an increase of Vt1 million and Vt500,000 respectively for 2004 and 2005[6].

The law firms that operate within the IFC experienced a significant increase in operating costs too. These firms reported that from 2000 to 2005 they spent between 20 and 50 additional hours each year on fulfilling the new STR/KYC requirements, which added about an extra Vt1 million each year to their operating costs. However, the law firms did not recruit any new staff to perform this work, either retraining existing staff or, in the majority of cases, the senior partners performing these duties personally. About Vt120,000 was spent by some firms on attending special conferences on AML/CFT[7].

In some instances, the incremental costs were passed on from the regulators to the IFS providers and from the IFS providers to the clients. This was mainly by way of higher fees and other charges. For example, the fee for registering an offshore bank in Vanuatu was increased from $US5,000 (the fee under the old banking act) to $US8,000 (fee under the new banking act)[8]. Other non-pecuniary costs clients had to cope with were the loss of privacy and confidentiality, and delays in remittance transaction periods due to the new more detailed due diligence/KYC requirements. Overall this increased the time that is usually taken to clear documentation and do business, which frustrated some clients and drove them to other destinations. This led to lost business opportunities for the offshore sector in Vanuatu.

Because most forms of regulatory requirement lead to employment opportunities for local workers in the country, however, some of these costs may also have provided employment benefits.

Table 12.6 Cost of regulating offshore sector 2000–2005 (Vt, millions)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
RBV	2.4	2.4	14	21.7	25.5	12.2
VFSC	10	10	10	16.35	32	47
FIU	1	1.8	1.8	1	7.5	7.8
TOTAL	**13.4**	**14.2**	**25.8**	**39.05**	**65**	**67**

Table 12.7 Revenue from offshore sector 2000–2005 (Vt, millions) (as estimated by RBV)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
(International) Shipping & Companies fees	357	309	281	253	218	202
Offshore banks	64.9	42.9	38.5	37.4	12.32	12.32
Total estimated revenue	**421.9**	**351.9**	**319.5**	**290.4**	**230.32**	**214.32**

Table 12.8 Cost of regulation versus revenue from offshore sector 2000–2005 (Vt, millions)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*
Cost	13.4	14.2	25.8	39.05	65	67
Revenue	421.9	351.9	319.5	290.4	230.32	214.32
Ratio (%)	3.2	4.0	8.1	13.5	28.2	31.3

12.2 Incremental benefits of enhanced IFS regulation and supervision

It is difficult to identify incremental benefits to the offshore centre in Vanuatu due to the enhanced IFS regulation and supervision, and impossible to quantify any such benefits. One qualitative benefit identified by public sector regulators and some (though by no means all) private sector respondents is that the enhanced regulation and supervision requirements are said to have improved Vanuatu's reputation as an IFC. It has also possibly enhanced Vanuatu's competitiveness with other IFC jurisdictions, though this assessment is supported only by some of the public sector and by a minority in the private sector, who believe that such benefits may only be seen over a period of time. Other sceptics think that, due to its remoteness, Vanuatu is not in competition with other geographically better placed IFCs like the British Virgin Islands and the Cayman Islands.

By complying with the FATF initiatives, Vanuatu avoided being placed on the NCCT list and so avoided the associated negative publicity, which would tend to have discouraged offshore clients and international aid. Since committing to the OECD Harmful Tax Practices initiative in May 2003, Vanuatu has been removed from the 'Unco-operative Tax Haven' list[9]. Given the serious reputational and material damage inflicted by blacklisting on other Pacific IFCs since 2000, these are significant achievements. Public sector regulators and those offshore bankers that remain identify the major benefit of adopting reforms as the sector's continued ability to enjoy access to the global market for IFS.

According to the RBV and the VFSC, the number of registrations of international companies and offshore banks have declined due to the new regulatory requirements since 2000. However, both regulators were positive that with time the numbers would increase and the offshore centre will attract more business. It is anticipated that the new international regulations will increase growth and in turn will bring a more diverse IFS client base. However, there has not been any significant positive growth since 2000[10].

In general, a large majority of the participants in the workshop for this case study agreed that it was difficult to identify any direct 'reputational dividend' accruing to Vanuatu as a result of its compliance with new regulations. The general feeling among workshop participants was that both the public and private sector had spent a great deal of effort meeting new regulatory standards with very little to show for it in terms of increased revenue, and with little thanks from the outsiders that have driven these regulatory changes, in particular by the threat of blacklisting.

A significant negative change has been noted in the collection of the offshore sector's revenues due to the new international regulations. A private sector source claimed that the loss of offshore banks has cost the public and private sector in Vanuatu a total of US$1 million.

12.3 Overall assessment of net benefits accruing to Vanuatu from adoption of new international regulatory standards and strengthened regulatory regime

The overall net impact on the Vanuatu economy in adopting the new international regulatory standards has been generally negative to date. Complicating this assessment, however, is the improved reputation Vanuatu may have gained in the international business arena. The new regulatory standards may result in reputational gains, which would result in foreign authorities removing barriers to the marketing of financial services from the IFC. Private investors may also be more likely to invest in a jurisdiction that has met international standards and is not on any blacklist. However, there is as yet little or no firm evidence to support this optimistic scenario.

The government and the public sector regulators, under international pressure, have had to adopt new international regulatory requirements. This has cost the public sector far more to implement the new standards than has been received in any quantitative benefits to date. In most instances, new staff members have had to be employed or existing staff retrained to take on the new responsibilities. In some instances, new office space has had to be rented to accommodate the new staff. Where new staff have been recruited, new equipment has had to be bought, which has increased the cost of operations for public sector regulators.

Private sector IFS providers have also had to implement the new international standards, particularly in the form of stricter due diligence/know your customer requirements. As a result, a substantial volume of business has been lost, as the IFC's international clientele have found the new regulatory requirements excessively intrusive[11] . In particular, some private sector respondents emphasised in interviews and workshops that a significant amount of business had been lost to less strictly regulated onshore jurisdictions, like Delaware or London, or to IFCs like Hong Kong and Singapore that have so far not been targeted by the OECD or the FATF.

In order to be able to comply with the new regulatory requirements, the private sector has often had to retrain existing staff. For some operators, senior partners have had to perform the compliance work themselves due to the lack of experience of existing staff in this area. A few operators bought new IT software to comply with new regulatory requirements, while others indicated that they were already using such software before 2000. As with the public sector, for the private sector the overall net quantitative benefits in adopting new international regulatory standards have been negative to date. However, some private sector operators believed that there was a net qualitative benefit from Vanuatu's compliance with the new international regulatory standards, again through the country's enhanced reputation internationally.

The costs borne overall by Vanuatu's international finance centre (i.e. by both the public and private sectors) are far greater than any apparent benefits to date. The public sector is generally hopeful that the benefits from adopting the new standards will become more obvious in the near future with an increase in business.

For Vanuatu's offshore industry to grow and become more profitable, however, the implementation of new regulatory standards is not sufficient. Even though its name has been cleared from the OECD's blacklist, there is significant concern in the public sector that Vanuatu is still labelled by many banks as a 'blacklisted country'. Vanuatu is now explicitly marked out for unfavourable treatment in national tax blacklists maintained by Argentina, Brazil, Colombia, France, Italy, Latvia, Mexico, Peru, Portugal, Spain and Venezuela[12]. There have also been difficulties processing transactions from foreign banks, particularly in the United States. Some of these problems date from 1999, but the FSF's and OECD's blacklists have been an important contributing factor. The private sector believes that because banks in OECD states still treat Vanuatu as a non-compliant country, it is very difficult for private service providers to establish new banking contacts or maintain existing ones. Major international banks such as HSBC, Deutsche Bank and the Bank of New York, to name but a few, still refuse to carry out any transactions involving Vanuatu.

Some in the private sector believe that due to the small size of the Vanuatu's IFC operations, its success in meeting new international regulatory standards may not make any difference to the amount of business that comes its way, certainly not enough to compensate for the costs of implementing these standards.

12.4 Conclusions and future implications of current international regulatory initiatives for Vanuatu

According to some industry members, the imposition of new standards by a number of diverse sources is not an appropriate response to the underlying problems that are being addressed. The substantial volume of regulatory requirements imposed on Vanuatu in the recent years is said to be excessive considering the small scale of operations and the country's remoteness with reference to transactions relating to money laundering and the financing of terrorism. Private sector sources believe that this is particularly true, because in order to get to Vanuatu's offshore providers such transactions would have to go through other larger countries that should be already picking up on any illegal activity. The new regulatory requirements are said to be going in the wrong direction by requiring over-regulation of the IFS sector for AML/CFT concerns, when the possibility of such incidents occurring in Vanuatu is remote.

The FATF has been very active in ensuring that Vanuatu adheres to new AML/CFT international regulatory standards. Some sceptics have characterised its behaviour towards Vanuatu as oppressive, and believe that other larger financial centres have not had to implement such requirements, a suspicion confirmed in relation to Delaware, Nevada and Wyoming by recent US government reports[13]. The industry generally believes that new and more rigorous standards are being developed at a frenetic pace, not because there is an actual need for them in accomplishing desired objectives, but because an industry with vested interests has now emerged within the OECD and the international financial institutions (the World Bank and the IMF) for generating standards to give the impression of 'something' being done.

Vanuatu has made some conditional commitment to international tax information exchange (ITIE) with the OECD. In May 2003, the Minister of Finance wrote a letter to the OECD Secretary General agreeing to implement the reforms requested[14]. The commitment letter noted, however, that the reforms desired by the OECD would have 'significant adverse cost and revenue implications' for Vanuatu, and asked for donor countries to keep this sacrifice in mind when allocating development aid. In the commitment letter, the government of Vanuatu agreed to:

- Exchange tax information with other countries relating to criminal matters from 31 December 2003 and on civil tax matters from 31 December 2005. The fact that particular acts may not constitute crimes in Vanuatu or that Vanuatu has no fiscal interest in the case are not sufficient grounds to refused information exchange.
- Establish beneficial ownership of companies, banks, partnerships and other corporate vehicles and the settlors, trustees and beneficiaries of trusts, make this information available to regulators, and exchange this information with foreign tax authorities. Authorities will have access to and exchange bank information on a similar basis.
- Ensure that companies and other corporate vehicles will submit regular accounts in line with standards to be drawn up by the Joint Ad Hoc Group on Accounts.

Vanuatu's commitment letter was made conditional on the 'level playing field' being achieved in that all countries would meet the OECD standards on information exchange, and any countries failing to meet those standards being subject to 'co-ordinated defensive measures'. Although the OECD has refused in principle to accept 'conditional commitments', the status of Vanuatu's commitment and the specific measures is now unclear. Four OECD members have so far refused to abide by new rules on international tax information exchange (Austria, Belgium, Luxembourg and Switzerland), while the remaining five jurisdictions on the 'Unco-operative Tax Havens' list (Nauru having committed in December 2003) have not been subject to any co-ordinated defensive measures.

Representatives from Vanuatu attended the November 2005 OECD Global Tax Forum, at which it was agreed that information exchange should take place on a bilateral, voluntary basis according to the principle of mutual benefit. Australia is particularly keen to conclude a Tax Information Exchange Agreement (TIEA) with Vanuatu.

Vanuatu does not have any tax treaties with any country to date, though it may negotiate a bilateral tax information exchange agreement with Australia. Therefore, no information was available or collected from the country relating to the cost of international tax information exchange. Sceptics from the private and public sector are of the opinion that Vanuatu will have nothing to gain from such an agreement since it is a tax haven, hence any other country's tax information will be of no use to it. There were suggestions that if Vanuatu were made to release such information relating to its investors, then the body or country interested in this information should pay the price for it by way of some compensatory benefit to the country. Concerns were raised about the domestic privacy laws of countries like Australia and New Zealand, which may result in a one-way traffic flow from Vanuatu with nothing in return because under domestic law these countries would not be able to provide any tax/confidential information.

The other 'participating partner' governments in the OECD process are now in the situation of deciding whether the direct and indirect costs of concluding TIEAs are worth the benefits OECD countries are offering. Thus far, the TIEA between the Isle of Man and the Netherlands, concluded in late 2005, is regarded as being the most successful model of an arrangement conferring substantial mutual benefits.

Potential future costs from the OECD's initiative arise in several forms. There are the direct costs of implementing the specified reforms, particularly establishing beneficial ownership. Because the measures required by the OECD are largely the same as those in the FATF's 40 Recommendations[15] (and those called for in the 2003 IMF report[16]), it is artificial to attribute the costs of implementing such reforms to the OECD initiative alone.

However, there is also the impact to consider in terms of the reforms reducing Vanuatu's attractiveness as an IFC in the eyes of foreign investors. These costs can be expected to be significant. In both promotional material and in interviews, local corporate service providers tend to emphasise the importance of secrecy and confidentiality for clients forming international companies and trusts, either separately or in combination. To the extent that the identities of beneficial owners and directors of companies and the identity of trust beneficiaries must be disclosed to the authorities and thence passed on to foreign governments, the attractiveness of these vehicles can be expected to decline. Even for discretionary trusts it is expected that beneficiaries must be identified as soon as they receive income or assets from the trust. Similarly, increased reporting requirements for international and insurance companies may be expected to reduce their appeal to prospective clients.

Finally, both the public and private sectors agree a priority for the future is to improve the marketing of Vanuatu's international financial centre. For example, the VFSC is seeking to introduce online services and a marketing plan with the assistance of the ADB, which may cost approximately $US500,000. Despite the consensus on the need for enhanced marketing, there is no consensus as to who should take the lead and bear the costs: the private sector regards the government as having primary responsibility, while regulatory bodies see marketing as being incompatible with their role.

Table 12.9 Quantitative survey findings of the public sector – costs

Type of incremental cost incurred for AML/CFT	*2000*	*2003*	*2004*	*2005*	*Total 2000–05*
Additional person-hours for suspicious transactions reporting (STR)	1 person full time			2 persons full time	2 persons
Additional person-hours for know your customer requirements (KYCR)	1 person full time		4 persons full time	4 persons	
Number of money laundering reporting officers hired by your firm	1 person full time		2 persons full time	2 persons	
Cost of additional person-hours/ people hired for above (in Vt, millions)	1m	4m		7m	12m
Cost of additional space that needed to be rented/bought for this purpose (in Vt, millions)			5m	7m	12m
Regular in-house training on AML/ CFT (STR/KYC) (hrs/Vt, millions)	0 hrs/Vt		Vt1m	Vt1m	Vt2m
Cost of attendance by staff at special conferences on AML/CFT (in Vt, millions)			1m	3m	4m
Cost of training on new systems (hardware and software) for AML/ CFT (in Vt, millions)	0		1m	2m	3m
Costs to firm of external technical assistance obtained for AML/CFT:					
• from OECD, IMF, World Bank and other IFIs (in Vt, millions)	6m	12m from ADB	18m from ADB	36m from ADB	from ADB
• from foreign legal advisers (in Vt, millions)	3m	6m	8m	17m	
Costs of investment in additional systems for STR/KYC: hardware/ software (in Vt, millions)	0			3m	3m
Costs of additional internal audit requirements for new STR/KYC rules (in Vt, millions)	0	1m	3m	5m	9m
Costs of additional external audit requirements for new STR/KYC rules (in Vt, millions)		1m		5m	6m

Table 12.10 Quantitative survey findings of the public sector – benefits

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2000–05*
Incremental business revenue from increased IFS activity				(14,655m)	35,322m	(23,777m)	
Incremental profit from increased IFS activity							
Increased staff efficiency/ productivity				7m	7m	7m	
Increased client base and client source diversification (numbers)							
Increased product/service diversification				0	0	3m	
Increased competitiveness of Vanuatu as an IFC				0	0	3m	
Increased competitiveness of your firm in the Vanuatu IFC sector							
Improved technological capacity				0	0	3m	
Improved knowledge base in providing global IFS				1m	1m	2m	
Increased profitability from improved risk management				1m	1m	2m	

Table 12.11 Quantitative survey findings of the private sector – costs

Type of incremental cost incurred for AML/CFT	*2000*	*2003*	*2004*	*2005*	*Total 2000–05*
Additional person-hours for suspicious transactions reporting (STR)	50hrs	50hrs	100hrs	100hrs	300hrs
Additional person-hours for know your customer requirements (KYCR)	50hrs	50hrs	100hrs	100hrs	300hrs
Number of money laundering reporting officers hired by your firm	0	0	0	0	
Cost of additional person-hours/ people hired for above (Vt)	1m	1m	1m	1m	4m
Cost of additional space that needed to be rented/bought for this purpose (Vt)	240,000	240,000	240,000	240,000	960,000
Regular in-house training on AML/ CFT (STR/KYC) (hrs/Vt)	100hrs	200hrs	300hrs	300hrs	900hrs/ Vt5m
Cost of attendance by staff at special conferences on AML/ CFT (Vt)	30hrs	40hrs	40hrs	80hrs	190hrs/ Vt9m
Training on New Systems (Hardware and Software) for AML/CFT	0	20hrs	20hrs	40hrs	80hrs/VT 400,000
Costs to firm of external technical assistance obtained for AML/CFT:	0	0	0		0
• from OECD, IMF, World Bank and other IFIs		0	0	0	0
• from foreign legal advisers		0	0	0	0
Costs of investment in additional systems for STR/KYC: hardware/ software (Vt)	0	680,000	680,000	680,000	2m
Costs of additional internal audit requirements for new STR/KYC rules (Vt)	0	1m	1m	1m	3m
Costs of additional external audit requirements for rew STR/KYC rules		500,000	500,000	500,000	1.5m

Notes

1. Information provided by the Commissioner of the VFSC during an interview on 13 December 2005.
2. Information provided by Mr. Peter Tari, deputy governor, Reserve Bank of Vanuatu, during an interview on 6 December 2005.
3. Information provided by Mr. Mackenzie Obed, FIU officer, during an interview on 15 December 2005.
4. Information collected by the author from interviews.
5. Ibid.
6. Ibid.
7. Ibid.
8. Information provided by the Reserve Bank of Vanuatu.
9. Note that being removed from the OECD blacklist was not the only reason why Vanuatu committed to the OECD Harmful Tax Initiative. There were eight other conditions listed in Vanuatu's commitment letter to the OECD, in addition to the removal from the 'OCED list of Unco-operative Tax Havens' – information provided by Vanuatu's Finance Department on 27 February 2006.
10. Indication by the private sector.
11. Statement made by a private sector operator, who believes that international clientele jealously guard their privacy when dealing with offshore centres and that any additional requirements to provide personal information are treated as being intrusive.
12. See J.C. Sharman and G. Rawlings (2005).
13. See US Government Accounting Office (2006); US Treasury (2005).
14. See http://www.oecd.org/dataoecd/61/28/2634587.pdf [accessed 21 February 2008]
15. Available at: http://www.fatf-gafi.org/document/28/0,3343,en_32250379_32236930_33658140_1_1_1_1,00.html [accessed 21 February 2008].
16. IMF (2003c).