



# NATIONAL MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT

**REPUBLIC OF SIERRA LEONE**

## DISCLAIMER

The National Money Laundering and Terrorist Financing Risk Assessment (NMLTFRA) of Sierra Leone was conducted by Sierra Leone authorities, using the National ML/TF Risk Assessment Tool that has been developed and provided by the World Bank Group. Data, statistics, and information used for completing the National ML/TF Risk Assessment Tool modules, as well as findings, interpretation, and judgment under the scope, completely belong to the Sierra Leone authorities and in no way reflect the views of the World Bank Group.

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## **ACRONYMNS**

**ACC** Anti-Corruption Commission

**AML/CFT** Anti-money Laundering and Combating the Financing of Terrorism

**ATM** Automated Teller of Machine

**BCP** Basle Core Principles

**BSL** Bank of Sierra Leone

**CCTV** Close Circuit Television

**CDD** Customer Due Diligence

**CDH** Capital Discount House

**CISU** Central Intelligence and Security Unit

**DNFBPs** Designated Non-Financial Businesses and Professions

**EPA** Environmental protection Agency

**EVD** Ebola Virus Disease

**FATF** Financial Action Task Force

**FDHL** First Discount House Limited

**FIU** Financial Intelligence Unit

**FSAs** Financial Services Association

**FSAP** Financial Sector Assessment Program

**FSRB** FATF-Styled Regional Body

**GIABA** Inter-Governmental Action Group against Money Laundering in West Africa

**GIS** Geographical Information System

**GLC** General Legal Council

**GoSL** Government of Sierra Leone

**GPS** Global Positioning Satellite System

**ICASL** Institution of chartered Accountants of Sierra Leone

**IMF** International Monetary Fund

**KPCS** Kimberley Process Certification Scheme

**KYC** Know your Customer

**ML** Money Laundering

**MoFED** Ministry of Finance and Economic Development

**NASSIT** National Social Security and Investment Trust

**NGOs** Non-governmental organizations

**NMLTFRA** National Money Laundering and Terrorism Financing Risk Assessment

**NRA** National Risk Assessment

**OFAC** Office of Foreign Assets Control

**ONS** Office of National Security

**PEPs** Political Expose Persons

**POS** Point of Sales

**RUF** Revolutionary united Front

**SEC** Stock Exchange Commission

**SETC** Stock Exchange Technical Committee

**SLICOM** Sierra Leone Insurance Commission

**SOCC** Security Operations Control Center

**STR** Suspicious Transaction report

**TF** Terrorism Financing

**TOCU** Transnational Organized Crime Unit

## Foreword



This is Sierra Leone's first National Money Laundering and Terrorism Financing Risk Assessment (NRA) and marks a milestone on the pathway to developing an effective and comprehensive anti-money laundering and combating the financing of terrorism (AML/CFT) regime. The NRA is a self-evaluation process conducted to identify, assess and understand money laundering (ML) and terrorism financing (TF) risks, with a view to developing an appropriate framework to address the inherent vulnerabilities in the country's AML/CFT and mitigate associated risks from the threats to ML and TF. Sierra Leone recognizes that money laundering (ML) and terrorism financing (TF) offences are global problems that should be confronted collectively and all countries have a responsibility to provide robust defenses. The completion of the NRA has clearly demonstrated our resolve to ensuring that the country is not a place where criminals can find a safe haven. This is a responsibility that we take particularly seriously and have a duty to uphold the highest international standards in protecting our economy against criminal abuse. In the absence of adequate preventive measures, the perpetration of these crimes by criminal syndicates will ultimately undermine our efforts to protect the integrity and stability of the financial system, which has serious economic and social consequences for the country.

In identifying and assessing threats and vulnerabilities of the country, the NRA process provides a useful framework in promoting awareness of ML/TF risks among AML/CFT stakeholders, policymakers and the public at large. By providing country-level assessment of ML/TF vulnerabilities, the NRA plays an important role in enabling the stakeholders to

better identify, target and prioritize these vulnerabilities to effectively address the deficiencies in the country's AML/CFT regime. The findings of the NRA will shape Government's response to the fight against these crimes in different ways, including

providing guidance on the efficient allocation of AML/CFT resources to relevant agencies, and consequently paving the way for the implementation of a risk-based approach to combating these crimes. This assessment will particularly support efforts of financial institutions in developing robust AML/CFT preventive measures, by identifying and assessing ML/TF risks and providing guidance on how such risks can be mitigated.

This report provides a holistic analysis of the ML/TF threats and vulnerabilities. It particularly discusses the findings from assessments of these risks in the banking system, designated non-financial businesses and professions (DNFBPs), insurance industry, as well as financial inclusion products, and from predicate offenses such as bribery and corruption, fraud, drug trafficking, tax evasion, human trafficking and smuggling.

The findings of this assessment and the actions arising from it will provide key input to the National Strategy on AML/CFT of Sierra Leone. This Strategy, which will set the road map in the fight against ML and TF, will also undoubtedly be very handy for the forthcoming second round of Mutual Evaluation of Sierra Leone in 2019. The assessment was spearheaded by a multi-agency group which included intelligence agencies, law enforcement agencies, Central Bank Supervisors and Government Officials, with significant contributions also from financial institutions and other private sector players.

**Hon. Momodu Kargbo**

**Minister of Finance and Economic Development**

## EXECUTIVE SUMMARY

Sierra Leone's first National Money Laundering and Terrorism Financing Risk Assessment (NMLTFRA) was conducted to identify, assess and understand ML/TF risks in Sierra Leone and determine how such risks can be mitigated. It evaluates the threats and vulnerabilities of the various sectors to ML and TF risks, with the overall objective of integrating ML/TF risk mitigating measures into the National Strategy on Anti-Money Laundering and Combating the Financing of Terrorism for Sierra Leone, measuring the robustness of Sierra Leone's AML/CFT controls, following recent efforts to strengthen the country's AML/CFT regime. This NMLTFRA Report and Action Plan thus reflects the country's commitment to meeting its international obligations on ML and TF, as highlighted in the revised FATF 2012 recommendations

This NMLTFRA was borne out of extensive consultations and collaboration between the Financial Intelligence Unit (FIU), law enforcement agencies, regulatory agencies for banks and non-bank financial institutions, designated non-financial businesses and professions (DNFBPs), private sector representatives, the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) and the World Bank. The methodology adopted follows the conceptual framework for national risk assessment provided by the World Bank. Experts from the World Bank provided technical assistance to guide the different working groups on how to effectively utilize the risk assessment tool that they had provided.

The assessment closely followed the three key stages identified in FATF guidance on national risk assessment: identification, assessment and evaluation. The different working groups produced their respective reports which were consolidated into this national risk assessment (NRA) report. This report therefore reflects the last stage of the risk assessment process; it evaluates the threats and vulnerabilities of the various sectors of the economy for more informed decisions on the measures to address these vulnerabilities and mitigate the risks stemming from these threats. The risk rating model assesses the structural risk within each area, based on a series of factors to indicate the



threats and vulnerabilities of a particular sector to ML and TF and the likelihood that ML will materialize in that particular sector.

Among the major weaknesses identified in the Mutual Evaluation conducted by the World Bank in 2007 were ineffective criminalization of ML offence and the absence of legislative provisions criminalizing terrorism financing offenses. Recent efforts by the authorities have resulted in significant improvement in Sierra Leone's regulatory and supervisory frameworks and overall improvement in the country's AML/CFT regime. This is clearly evident in the achievements highlighted in recent reports presented at various plenaries.

While much progress has been made in strengthening the country's AML/CFT regime, the Sierra Leone economy is particularly vulnerable to ML due partly to the structural features of the economy, including the presence of relatively large informal sector, preponderant use of cash to finance transactions especially designated non-financial businesses and professions (DNFBPs), such as real estate agents, casinos, dealers in precious stones and metals and automobiles, and increasing interconnectedness of the banking sector. The assessment revealed 'very high' level of vulnerabilities to ML/TF in transactions conducted by DNFBPs. While sub-sectors such as real estate and casinos were not fully assessed due largely to travel restrictions imposed on the heels of the Ebola outbreak, other DNFBPs such as dealers in cars and diamonds and legal professions and accountants have very high vulnerability to ML. Business transactions are largely cash-intensive and AML/CFT control measures have not been implemented in these sub-sectors.

The threat assessment revealed that corruption, drug trafficking and fraud generate high level of illicit proceeds in Sierra Leone. The overall threat of ML associated with these offenses was rated between medium-high. In terms of TF, the assessment revealed low threat level as there have not been any reported cases of terrorism financing and there are robust legal provisions criminalizing the financing of terrorism, even though there is no legislation that criminalizes terrorism offence.

Turning to the other financial institutions, the assessment showed that the vulnerability level to ML and TF is high for foreign exchange bureaus and remittance providers. The transactions are largely conducted in cash and AML/CFT control measures have not been extended to govern their operations. Other institutions such as community banks,

microfinance institutions and consumer finance and leasing institutions revealed medium-low vulnerability to ML and TF. These institutions are all regulated and supervised by the Bank of Sierra Leone. Unregulated businesses such as money changing were rated as having medium-high vulnerability to ML and TF, while pawn broking and

money lending showed medium-low vulnerability. As regards financial inclusion, our assessment indicates that a significant proportion of the population is unbanked. The delivery of financial products and services to rural communities and other vulnerable groups is gradually improving, with community banks and financial services agencies and mobile money providers at the forefront of the delivery of such services. Based on the assessment of the products vulnerabilities against the AML/CFT controls, the overall risk for ML/TF in mobile money services was rated to be medium. Although such services are likely to be used by money launderers and terrorist financiers, mobile payments generate a visible and traceable audit trail compared to cash payments.

There is a medium vulnerability to ML activities in the banking sector. The assessment showed weaknesses in the supervision of banking sector on AML/CFT requirements although there are reasonable AML/CFT control measures in place to fight against ML practices. Specifically, there are significant weaknesses in key areas that need to be addressed in order to mitigate the risks of ML. Such areas include the enforcement of AML/CFT obligations, corporate and trust transparency and bank staff integrity.

In light of the inherent threats and vulnerabilities, the overall risk assessment for Sierra Leone was rated medium. Such an assessment has called into question the need to address the gaps in the AML/CFT regime to mitigate ML/TF risks. These measures include tackling the problems of limited capacity in law enforcement agencies and supervisory bodies, review of the AML/CFT Act 2012 and Regulations to accommodate revisions in international AML/CFT standards and extension of AML/CFT controls to other financial institutions and DNFBPs.

## 1.0 INTRODUCTION

Money laundering (ML) and terrorism financing (TF) pose a threat to the integrity and stability of both domestic and international financial systems. Sierra Leone, like many other African countries, is particularly susceptible to money laundering due partly to the vulnerabilities of the financial system, including the presence of relatively large informal sector, preponderant use of cash to finance transactions especially designated non-financial businesses and professions (DNFBPs), such as real estate agents, casinos, dealers in precious stones and metals and automobiles, and increasing interconnectedness of the banking sector. The existence of a sizeable informal sector and greater use of cash in the economy suggest that several financial transactions are not documented and subjected to anti-money laundering and combating the financing of terrorism (AML/CFT) compliance measures. While the increasing connectedness of banking institutions in the sub-region has expanded opportunities for greater delivery of financial products and services, it also presents serious challenges to law enforcement agencies, Central Bank supervisors and Financial Intelligence Units (FIUs), with the unintended consequence of extending the reach of organized crime syndicates. This situation is further compounded by potential ML activities from predicate offences such as drug trafficking and human trafficking, fuelled through porous borders and free movement of people within the West African sub-region. It is the realization of the risks of ML and TF that has prompted the authorities in Sierra Leone to adopt more proactive approach to strengthening the country's AML/CFT regime, by identifying, assessing and understanding the threats and vulnerabilities of ML and TF.

At the international level, countries were initially required to develop their AML/CFT regime in line with international standards(40+9 Recommendations) prescribed by the Financial Action Task Force (FATF). In response to increasing concerns about ML/TF risks, these Recommendations were revised in 2012 to strengthen the requirements for tackling higher risk situations, and provide the scope for countries to adopt more focused approach to dealing with these risks. Along these lines, one would indicate that the most

important change in the 2012 FATF Recommendations is the provision for a risk-based approach to AML/CFT, which is now central to implementing all of the FATF standards. The FATF require countries to base many key elements of their AML/CFT regime design on an assessment of the specific AML/CFT risks they face with different industries, products, delivery channels, and relevant domestic conditions. While the basic FATF preventive controls are mandatory for all countries and all sectors, a risk-based approach can be used to determine the depth or intensity of the controls implemented in various sectors/sub-sectors.

The national risk assessment (NRA) was particularly borne out of Recommendation 1 of these revised FATF Standards. The Recommendations were subsequently adopted by all FATF styled Regional Bodies (FSRBs) including the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), which has directed all member states to undertake the NRA process prior to the next round of mutual evaluations. In view of these developments, Sierra Leone has an obligation under the FATF Recommendations (and its interpretative note) to conduct the NRA, which was recommended by the AML/CFT Technical Committee and endorsed by the Inter-Ministerial Committee in 2014.

The objective of the NRA process is to identify, assess and ensure deeper understanding of the risks of ML and TF confronting Sierra Leone, with the ultimate goal of protecting the integrity and stability of the financial system through the adoption of appropriate measures to mitigate such risks. Specifically, an understanding of vulnerabilities of the financial system will assist the government, law enforcement agencies, supervisors and the private sector in targeting their resources to the areas of highest risks, thereby ensuring efficient allocation of resources to mitigate these risks and promote effective coordination between the Government and AML/CFT stakeholders. With Sierra Leone's second round of mutual evaluation to be conducted in 2019, the completion of the NRA process is timely and it will provide key input to the National Strategy on AML/CFT to be completed shortly. The priorities for this strategy will be:

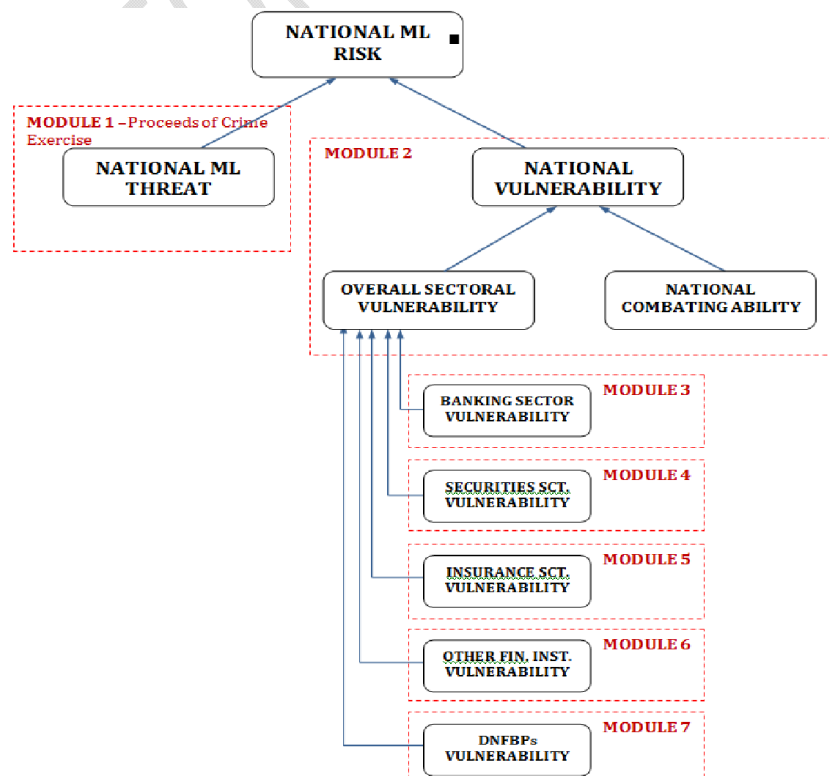
- improving intelligence gathering, particularly those associated with suspicious transaction reports (STRs) from DNFBPs;

- improving supervisory oversight and inspection systems for monitoring compliance with AML/CFT obligations in all sectors, including implementation of effective, dissuasive and proportionate sanctions;
- enhancing our law enforcement response to tackle the most serious threats;
- upgrading the capabilities of the FIU and reforming the suspicious transaction reports (STRs) regime;
- improving cooperation among supervisory agencies and ensuring that DNFBPs are effectively regulated and supervised;
- raising awareness on ML and TF risks in key parts of the regulated financial sector and DNFBPs to assist them mitigate these risks;
- laying out a path for effective information sharing between law enforcement agencies, supervisors and the FIU.

### 1.1 Background: Building Blocks of the NRA Tool

As illustrated in figure 1, the NRA tool has two main modules: the National Threat module and the National Vulnerability module. The combination of these modules determines the money laundering risk at the national level.

**Figure 1:** General Structure of NRA Tool



## **1.2 METHODOLOGY**

This report collates the findings from the ML and TF risk assessments conducted by the various working groups set-up to identify and assess the vulnerabilities of the financial system and the threats from related predicate offenses. The NRA process was phased over three-stages. The first stage of the assessment, identification, focused on gathering information through consultation. Workshops and bilateral meetings with a broad range of stakeholders were held, including firms and industry representatives from supervisory authorities, law enforcement agencies, the sectors under ML regulation and supervision, other Government Departments and NGOs.

Questionnaires were administered only in the capital city of Freetown to the Anti-Corruption Commission, Central Intelligence & Security Unit, Serious Crime Coordination Group (SOCC) of the Office of the National Security (ONS), National Revenue Authority (NRA), Transnational Organised Crime Unit (TOCU), Economic Crime Unit of the Sierra Leone Police, the Director of Public Prosecutions Office, Immigration Department, Insurance and Re-Insurance companies, Commercial Banks and the Financial Intelligence Unit (FIU) related to the aims and objectives of the National Risk Assessment. A number of operators in the banking industry were interviewed, including customers of banks and staff. Moral suasion was employed to collect objective information.

The second stage involved analysing the data provided by stakeholders to establish the risks present, and understand their impact. Given the largely hidden nature of ML and TF, the data used for this assessment is, partial and in some instances inconsistent or contradictory. The perceived hidden nature of ML and TF is partly attributed to the low level of AML/CFT compliance by reporting entities in some sectors. The conclusions of the assessment in this report draw heavily on expert judgment from law enforcement agencies, supervisory authorities and those responsible for AML/CFT within firms. As a result, this assessment represents the broad views of all those participating in the Sierra Leone's AML/CFT regime from regulated firms in the private sector, to police forces and national law enforcement agencies, government departments and supervisory authorities. It also reflects input from leading NGOs in this area.

The final stage of the assessment was the evaluation of the relative exposure of each sector to risk. As part of this, sectors were ranked on the basis of risks inherent in these

areas. The methodologies used by the GIABA and World Bank were considered during the development phase. It should however be noted that the risk rating is a relative assessment, and a rating of low risk does not mean that there is no risk within a sector. Money laundering may still take place through low risk sectors at a significant level, and, as compliance is one of the factors considered in the risk assessment, sectors still need to invest significant effort to strengthen their AML/CFT controls in order to address the threats and vulnerabilities they face.

The NRA risk rating model assesses the structural risk within each area, based on a series of factors to indicate the vulnerability of a particular sector to money laundering and the relative likelihood that the threat of money laundering will materialise in that particular sector, that criminals will attempt to launder money through some means, and all the sectors covered below can be used to launder money and finance terrorism. It is worth noting that this model focuses on the risk of businesses in a sector being used by criminals to facilitate money laundering and terrorist financing, wittingly or unwittingly, due to the services it offers, rather than the risk that business itself is established as a front for money laundering.

The assessment has also looked at means of transferring funds that provide a degree of anonymity, and so present a greater risk than payments through the conventional payment systems that are directly linked to a bank account, such as debit/credit card payments, direct debit or other transactions through bank payment systems. A range of factors were considered when assessing the risk within the sectors, including law enforcement agencies' existing knowledge of ML through the sector, where a lower level of knowledge represents a vulnerability and there a higher level of risk. In a similar manner, several factors were considered in assessing the vulnerability of a particular sector to these offenses including:

- the relative complexity and reach (national/international) of the services offered by the sector, or the capacity to move money internationally given the nature of the funds (i.e. cash, wire transfers)

- the relative volume and speed of money movement through firms in the sector, or the volume and speed of money movement given the nature of the funds .
  
- the level of compliance within the sector

The consequences of criminals successfully laundering money through a particular sector were assumed to be severe for all the areas covered. Following the evaluation of the threats and vulnerabilities, a matrix was developed to produce a score for the respective thematic risk areas and categorized into low, medium or high risk levels. The assessment teams considered the mitigating measures in place in terms of law enforcement agencies, supervisors' capability and capacity to combat ML in those areas. The combined mitigation score has the potential to reduce the overall risk level of a thematic area.

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## SECTION 2

### 2.1 MONEY LAUNDERING (ML) AND TERRORISM FINANCING (TF) THREAT ASSESSMENT

This assessment takes a comprehensive look at the predicate offenses that pose the threat of ML in Sierra Leone. The analysis further considers the possibility of the existence of terrorist financiers, evaluates the scale of funds raised and potentially used to support terrorist activities.

#### 2.1.1 Methodology

The outbreak of the Ebola disease in 2014 restricted movement of people across the country. Consequently, the assessment was done mainly in Freetown where fifty (50) questionnaires were developed and administered to various law enforcement agencies including; the Anti-Corruption Commission (ACC), Central Intelligence & Security Unit (CISU), Serious Crime Coordination Group (SOCC) of the Office of the National Security (ONS), National Revenue Authority (NRA), Transnational Organized Crime Unit (TOCU), Economic Crime Unit of the Sierra Leone Police, the Director of Public Prosecution's Office, Immigration Department and the Financial Intelligence Unit (FIU) related to the aims and objectives of the National Risk Assessment. Both primary and secondary data were collected. The primary source involved interviews and administration of questionnaires while the secondary data was sourced from published data and other records kept in files by various institutions and reports dealing with predicate offences.

#### 2.1.2 Limitations

- Records on the predicate offences from the various law enforcement agencies were not well documented.

#### 2.1.3 Threat Assessment Analysis

Eight (8) predicate offenses associated with generating proceeds of crime are covered in this analysis, viz, bribery and corruption, fraud, drug trafficking, tax evasion, human trafficking, smuggling, counterfeit products and intellectual property and environmental crime. These are predicate offences of ML under the AML/CFT Act 2012.

## **i. Bribery and Corruption**

- **Threats**

Corruption is easy, inexpensive and not likely to be detected or prosecuted, making it easy to transfer proceeds of corruption abroad. It is a threat because Sierra Leone needs officials to operate as a state; thus it is a risk that cannot be eliminated, therefore it must be mitigated by reducing vulnerabilities.

The number of persons indicted and convicted of corruption shows that it is the most widespread in Sierra Leone. A concern is that some of the public officials involved and convicted have been reappointed to higher level of public office. Statistics of the Anti-Corruption Commission point to no seizures and confiscations of proceeds. The Commission only levies fines or term of imprisonment or both because they claimed people are not willing to disclose assets acquired with illegal proceeds.

Bribery and Corruption generates high level of illicit proceeds in Sierra Leone. According to the Anti-Corruption Commission's National Public Perception Survey on corruption in 2010, corruption is seen as the third most serious problem in the country, after poverty and unemployment. Transparency International's Corruption Perception Index reported corruption in Sierra Leone as highly corrupt as evidenced by the table below, which shows that Sierra Leone always falls below the average score of 50

YEAR	RANK	SCORE
2006	142	2.2
2007	150	2.1
2008	158	1.9
2009	146	2.2
2010	134	2.4
2011	134	2.5
2012	119	31
2013	119	30
2014	119	31

- Proceeds from foreign countries are laundered in Sierra Leone according to FIU database. The Unit received requests from the United States of America, Canada, Zimbabwe and Romania on proceeds laundered in Sierra Leone from these countries through banks.

## ***Vulnerabilities***

Corruption is rife and entrenched due to:

### **(i) Weak systems and procedures to identify, investigate and prosecute corruption**

Even though the Anti-Corruption Commission has the power to freeze assets of proceeds of crime based on its law, it always either levy fines or terms of imprisonment. The fines levied are always not commensurate with the amounts being swindled. Thus, the Commission should collaborate with FIU while conducting matters of corruption. While the Commission concentrates on the predicate offence, the FIU will be going after the proceeds of crime. The asset disclosure system of the Anti-Corruption Commission (ACC) is not well organized. There are ineffective tools of identifying corruption due to the manner asset declaration is administered and implemented in Sierra Leone. Compliance rates in the declaration of assets are very low and the ACC has not taken decisive steps to address this problem. Below are statistics collected by the World Bank (provided by the ACC's Asset Disclosure Unit) which demonstrates that the corrupt officials are not filing because there is no effective sanction for non-compliance. Thus, the asset disclosure forms collected are largely those filed by honest officials. This is illustrated on the table below:

Year	Forms collected	Forms printed	Establish number of obligated officials	Compliance rate
2009/2010	27,000	50,000	80,000 to 84,000	33%
2011	10,000	50,000	80,000 to 84,000	12.50%
2012	25,000	50,000	80,000 to 84,000	31%
2013	No AD forms collected due to Parliamentary amendment aimed at repealing the AD filing obligation (subsequently withdrawn)	50,000	80,000 to 84,000	0%
2014	24,000	55,000	80,000 to 84,000	30%
2015	24,000	55,000	80,000 to 84,000	30%
2015	15,000	55,000	80,000 to 84,000	18.5%

Another concern about the asset declaration system is the lack of clear objective or feasible enforcement definition of the scope of officials subject to this obligation. The broad scope of definition which requires 'all public officers' to submit asset declaration forms annually is interpreted by the ACC to mean anyone who receives any salary from the Consolidated Fund. This means that all teachers, drivers and even the lowest levels of officials are obligated to file asset declaration forms, which prevents the Commission from implementing any feasible or effective system to monitor or assess compliance.

There are no effective sanctions to address non-compliance on filing asset declaration. The public naming and shaming in media is inefficient and costly for an extremely resource challenged ACC. High profile public officials are often not named and shamed as required and the sanctions used are arbitrarily and selectively enforced, which undermines credibility and effectiveness of the entire asset declaration system. This perpetuates corruption because:

- (1) corrupt officials simply need not file asset declaration forms as there is no effective sanction;
- (2) the asset declaration forms received by the ACC are largely those filed by honest officials, rendering the asset disclosure system and the asset declaration forms collected, of low value as a corruption prevention tool.

The ACC's unwillingness to provide asset declaration to the FIU. The Commission claimed according to their law that they are not obliged to provide asset declaration of Subjects that the FIU is facilitating investigations. This deters the FIU from following assets gained from illicit means by public officials and therefore makes corruption to thrive unhindered.

A related vulnerability is the fact that there is no clear or objective national definition of Politically Exposed Persons (PEPs). The lack of clear and objective definition of PEPs means that reporting entities apply their own definition of PEPs. Thus differ between reporting entities. Therefore, the interpretation of categories of risks will be different between banks in relation to risk rating of PEP as higher risk. This will result in reporting entities not reporting suspicious transactions related to corruption and applying enhanced monitoring. Again, there are no provisions in the AML/CFT Act 2012 relating to unexplained wealth. This suggests that law enforcement agencies will find it difficult to

relate money laundering activities to proceeds of corruption. It is therefore important that the Anti-Corruption Commission collaborate with the FIU in corruption matters. While the Commission is investigating the predicate offense (corruption), the FIU will go after the proceeds of crime. The FIU in collaboration with ACC develop a clear and objective definition for PEPs in a regulation to ensure that financial institutions classify them as high risk customers and facilitate the reporting of suspicious transactions relating to corruption.

**(ii) Weak integrity and legal framework foundations to support these systems and procedures;**

While Sierra Leone has the most robust law in fighting corruption in Africa and one of the best in the world, integrity is a big problem in the country. The problem is emphasized in the report "Corruption Stops with Us: Ending Bribery for Traffic Offences in Sierra Leone ([www.sierraloaded.com](http://www.sierraloaded.com)), which exposed the Sierra Leone Police (traffic personnel) to have received an estimated total of Le81 billion (US\$13,965,517) from bribery.

The report further noted that three out of every five drivers interviewed had paid bribe whenever they were stopped by the police for minor traffic offenses, with 60% of them claiming to have been paying bribes ranging from Le5,000 to Le2,000 to traffic personnel. The report furthered that the Government lost an estimated Le700 billion (32% of revenue) from licenses fees and potential fines for traffic offences that are not paid to authorized revenue collection agencies.

The criminal law evidence framework has not been extended to capture evidence of IT recordings, text messages and social media because such developments are relatively recent after the relevant legislations were enacted. The public especially the business community for example, will not report a customs officer who extorts money from them because he/she is afraid of being castigated by the officers and would therefore prefer to pay the bribe and remain quiet. Because the ACC lacks proper artificial devices to aid intelligence like recorder etc., it is unable to prove some cases of corruption. For example, a driver alleged giving a bribe to a policeman, the driver might say that he/she is paying the policeman a debt and there is no way the officer can counter his statement.

In light of the public perception about the level of corruption in the country, the following actions are recommended:

- a. ACC should intensify its public sensitization including the borders. Educate people on the menace of corruption and also that people can succeed without involving in corrupt practices.
- b. The courts should allow the tendering of evidence of IT recordings etc to make the criminal law evidence framework to be user friendly.
- c. Government (Ministry of Finance and Economic Development) should increase the Commission's yearly allocation to cover provision for the acquisition of artificial devices to aid its intelligence.

**(iii) Weak integrity systems in the courts**

The court system threshold in terms of evidence is very high which makes cases of corruption thrown out of court because the court perceived corruption in the traditional fashion. Corruption is a relatively new phenomenon in the judicial system in Sierra Leone and these cases should not be prosecuted as a normal theft case were in the accused should be caught in the very act.

The capacity of the judiciary to adjudicate cases of corruption is relatively low. The posts of Attorney General and Minister of Justice are held by the same person, thereby

hampering impartiality. It is therefore important that the Government separates the positions of Attorney General and Minister of Justice. Reforms of the Law should be undertaken to ease the burden of proof on the prosecutors. Further amendments to the documentary Evidence Act are needed to incorporate aid devices in prosecution of these cases.

**(iv) Poor records management**

Records management is a problem in Sierra Leone. Records are mostly kept in the traditional way of maintaining hard copies, which can easily be destroyed or misplaced. To a large extent, these records have not been uploaded to a centralized database which should ease access if properly managed.

**(v) Poor enforcement of rules and regulations**

The ACC continue to face a number of challenges in the fight against corruption, some of the challenges include; the high number of cases on appeal and pending judgments, and the issue of bail pending appeal; which erodes the confidence of the people in the institutions ability to deal with corrupt individuals.

Some laws have not provided proportionate and dissuasive sanctions for violation of its provisions which also undermines effective enforcement of the law.

**(vi) Low remuneration for officials**

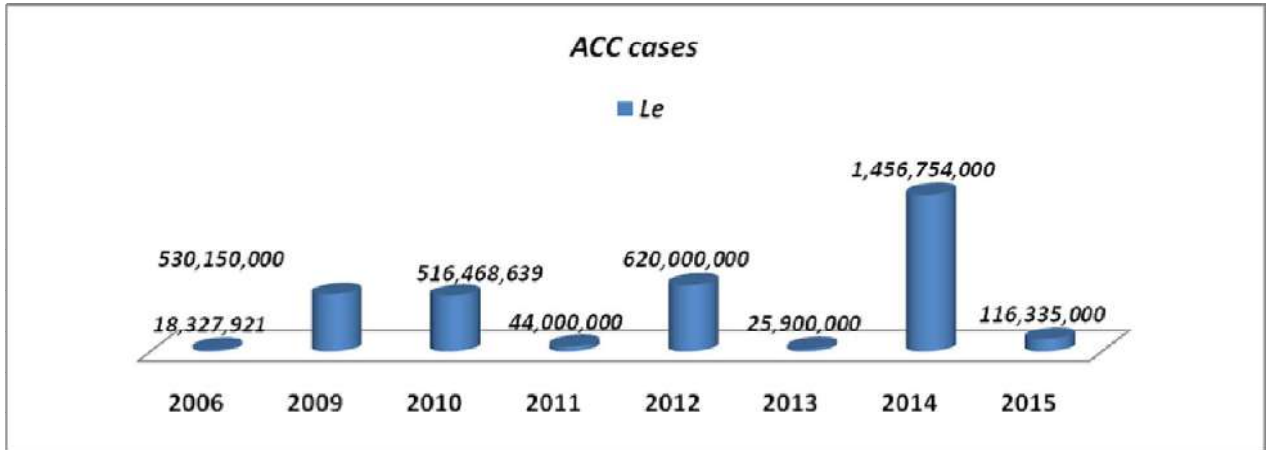
Remunerations are extremely low for many professional and managerial jobs, which can potentially fuel corruption.

**(vii) Officials breach procurement regulations without sanction**

According to the ACC 2010 report, it stated that Public officials breach public procurement regulations and award contracts to the companies and individuals based on interests, who frequently either do not complete the projects or do poor quality work or otherwise under-perform on the contracts. This is supported by recent report of the 100 buses and the Ebola cases. Below is a table that highlights yearly amount of proceeds generated from corruption cases from the Anti-Corruption Commission:

Year	Amount involved		US\$	Increase/decrease
	Le	Increase/decrease		
2006	18,327,921	18,327,921	6,109	
2009	530,150,000	511,822,079	176,717	↑170,608
2010	516,468,639	13,681,361	172,156	↓4,561
2011	44,000,000	472,468,639	12,571	↓159,585
2012	620,000,000	576,000,000	177,143	↑164,572
2013	25,900,000	594,100,000	7,400	↓169,743
2014	1,456,754,000	1,430,854,000	323,723	↑316,323
2015	116,335,000	1,340,419,000	25,852	↓297,871
	<b>3,327,935,560</b>		<b>901,671</b>	

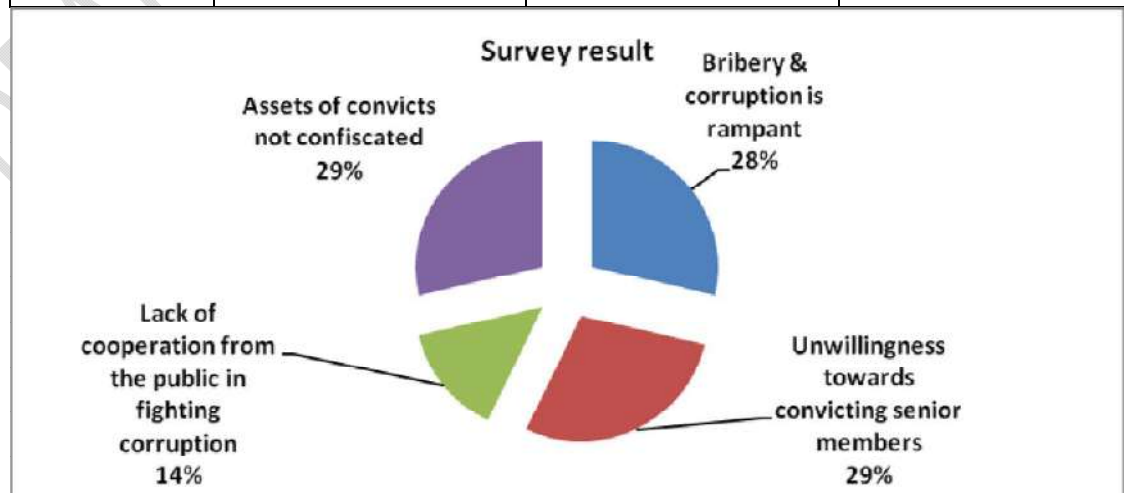
Source: Sierra Leone, Anti-Corruption Commission



The above graph depicts a fluctuating trend, 2006 is the least while 2009 goes up significantly by Le511,822,079 (US\$ and goes down drastically by Le13,681,361 in 2010, and goes down again radically by Le472,468,639 in 2011, goes up again considerably by Le576,000,000, dropped down drastically by Le594,100,000 in 2013, increased drastically by Le1,430,854,000 in 2014 which is top most in the graph reason being that the Ebola funds swindled by workers and the 100 buses acquired, decreased significantly by Le1,340,419,000.

This was supported by the responses received from the 40 questionnaires as follows:

Bribery & Corruption is rampant	Unwillingness towards convicting senior members	Lack of cooperation from the public in fighting corruption	Assets of convicts not confiscated
40	40	20	40



**Threat of ML/TF from bribery and corruption offense was rated as high.**



## Drug Traffic

### ii. Drug Trafficking

#### Threats

There have been reported cases of drug offenses in recent years, including cocaine, heroin and cannabis sativa. According to the UNODC (2008) report, the West African sub-region has become a hub for cocaine trafficking. In a report titled "Post conflict Governance in Sierra Leone Report", Abubakar Hassan Kargbo (2010) indicated that criminals have decided to use Sierra Leone as a transit route for drug trafficking to other parts of the world, particularly Europe and the United States. This was supported by a Cessna plane that landed at the Freetown International Airport loaded with 750 kg cocaine for distribution to other parts of the world in 2008. In 2013, a total of 15.98 kg of cocaine were intercepted. Data on bank to bank transactions and property seized is hard to come by. Sierra Leoneans and foreigners are involved in the trafficking of cocaine. These instances have brought to the fore the fact that criminals are increasingly using Sierra Leone as a transit route for cocaine trafficking to other parts of the world, particularly Europe and the United States of America. The Table below shows the quantity of cocaine seized and number of convictions obtained during the period:

Year	Seized	Weight	Conviction
2006	1	22kg	
2007	1	73kg	
2008	1	750kg	1
2013	1	15.98kg	1

Sierra Leoneans and foreign nationals mainly from countries in the sub-region are involved in the illegal trade. Available evidence showed that cannabis trafficked to neighboring countries such as Guinea is most times exchanged for goods (mainly motor bikes) which are in turn sold or used as means of commercial transportation in Sierra Leone. The porosity of the borders coupled with complicity of security personnel and the connivance of local communities in the cultivation of the drug are making the

atmosphere conducive for cannabis trafficking to thrive. This illegal trade has been estimated to worth thousands of dollars as shown in the table below:

Year	Seized	Weight	Value in US\$	Charged to Court	Conviction
2010	21	106.72kg	6,528.82	21	9
2011	18	1,073.18	43,112.00	18	10
2012	16	2,927.25	120,592.22	16	6
2013	15	1,917.76	81,118.00	15	12
2014	42	2,898.6	115,944.00	42	40
2015	52	1,481.5	59,260	52	49

Heroin is the least used illicit drug in Sierra Leone. However, the Transnational Organized Crime Unit reported the capture of 17.08 kg of heroin for the period 2010 and 2012. The cost is not known because it is priced according to type and the amount is not given by the Transnational Organized Crime Unit. Furthermore, on the Thematic Debate of the 66th session of the United Nations General Assembly on Drugs and Crime as a Threat to Development on the occasion of the UN International Day against Drug Abuse and Illicit Trafficking 26th June, 2012 in New York it came out that drugs and crime undermine development by eroding social and human capital which they say degrades quality of life and can force skilled workers to leave, while the direct impacts of victimization, as well as fear of crime, may impede the development of those that remain.<sup>1</sup>

**The threat of ML from drug trafficking was rated as high.**

### **Vulnerabilities**

#### **(1) Porosity of the borders, complicity and connivance**

The porosity of the borders coupled with complicity of security personnel and the connivance of local communities in the cultivation of the drug are making the atmosphere conducive for cannabis trafficking to thrive.

#### **(2) Ring fencing of Institutions**

There is limited collaboration among law enforcement agencies involved in the fight against drug trafficking which discourages information sharing. It would appear that the National Drug Enforcement Agency is not effectively collaborating with the Transnational Organized Crime Unit to eradicate drug trafficking in the country. While drug trafficking is one of the predicate offences under the AML/CFT Act 2012, criminals are using the country as a transit route for trafficking cocaine and the cultivation of cannabis. This is a growing concern and drug trafficking is therefore classified as high risk. In light of these vulnerabilities, there is need for appropriate actions to be taken to stem the level of drug trafficking”

- 1) Intensify the deployment of Security personnel to man the border.
- 2) The National Drug Law Enforcement Agency, Transnational Organised Crime Unit and Sierra Leone Police should work together to fight against drug trafficking.

### iii. Fraud

#### Threat:

Fraud is cheap and unlikely to be detected if proceeds are transferred abroad.

Staff of financial institutions use their position to commit fraud or aid and abet others in committing it. For example, a staff of a bank connived with a politically exposed person and a lady in laundering proceeds of crime. In another matter, bank official diverted funds of the bank into his personal accounts and series of other accounts opened for the laundering of the funds. The Table below displays fraud related STRs forwarded to the FIU during the period 2008-2015:

Year	Amount involved			Grand Total
	Le	US \$	GBP	US\$
2008		1,226,000		
2009		899,970		
2010		185,000		
2011		120,000		
2013	952,110,000	700,000	870,650	
2014	82,933,000	184,000		
2015	362,933,250	72,287,500		
<b>Total</b>	<b>1,397,976,250</b>	<b>75,602,470</b>	<b>Le6,094,550,000</b>	
	<b>US\$371,113</b>	<b>75,602,470</b>	<b>US\$1,354,344</b>	<b>77,327,927</b>

Source: FIU Database

Internet sources revealed the under-mentioned cases of diamond and gold related fraud:

Month	Type	Le	US\$	Source
July 2013	Diamond		106,000	Awoko.org
	Diamond	240,810,000	56,000	Slconcordtimes.com
18 <sup>th</sup> Nov. 2008	Gold		1,500,000	<a href="http://www.standardtimespress.org">www.standardtimespress.org</a>
Nov. 2011	Diamond		57,000	Standardtimespress.org

The under-mentioned are cases of fraud handled by various institutions:

Year	Institutions	Cases investigated	Amount involved	
			Le	US\$
<b>The threat level of ML/TF was rated high.</b>				
				564,222
	Unit of Police			
2014	SOCC	25		
2015	SOCC	49		

## Vulnerabilities:

### rabilities:

Fraud is a popular and lucrative activity in Sierra Leone due to:

#### I. Lack of integrity and credibility

Sierra Leoneans find themselves in an era where success is measured by the amount of money one accumulates. This obsessive sense of material wealth has caused a ruin of integrity and credibility in people. It is a common place these days for insiders of financial institutions to use their position to commit fraud or aid and abet others in committing it. Onsite examinations conducted by the FIU on commercial banks revealed staff complicity in fraud. There are also reported cases of Sierra Leoneans and foreigners being defrauded in the purchase of diamonds and gold.

Highlighted below are STRs reported because of employees involving in fraud:

Year	Amount involved			Grand Total
	Le	US \$	GBP	US\$
2008		1,226,000		
2009		899,970		

2010		185,000		
2011		120,000		
2013	952,110,000	700,000	870,650	
2014	82,933,000	184,000		
2015	362,933,250	72,287,500		
<b>Total</b>	<b>1,397,976,250</b>	<b>75,602,470</b>	<b>Le6,094,550,000</b>	
	<b>US\$371,113</b>	<b>75,602,470</b>	<b>US\$1,354,344</b>	<b>77,327,927</b>

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Nov. 2011	Diamond		57,000	Standardtimespress.org

The under-mentioned are cases of fraud handled by various institutions:

Year	Institutions	Cases investigated	Amount involved	
			Le	US\$
2010-13	SLP	32		
	Economic Crime Unit of Police	24	2,539,000,000	564,222
2014	SOCC	25		
2015	SOCC	49		

## II. Lack of legal framework

Even though there are other laws that can be used to deal with fraud cases, there is no specific legislation that handles fraud cases. Criminal charges are being pressed on predicate offences but no assets were identified for confiscation. Money laundering charges are not been charged because of lack of capacity on the side of investigators in collecting facts that will be presented in court. For instance, two cases were refused to be charged to court at the Law Office for fear of being thrown out of court for lack of sufficient fact. However, the FIU has been granted fiat on two cases which are presently committed to the High Court.

There is no proper statistics on investigated, prosecuted and convicted cases on predicate offences in general. There is no indication of assets that has been confiscated based on conviction, even if assets are been confiscated, there is no law that will enable the management of assets of conviction. Along these lines, the following measures should be taken to address the weaknesses identified above:

- 1) FIU to be given prosecutorial power to prosecute matters that pertains to money laundering and terrorism financing.
- 2) Law enforcement agencies, judiciary etc. should have a centralized database in their institution which should be linked to FIU to enhance investigation or analyses. These databases should record all matters that pertains predicate offences and other related crime.
- 3) Development and enactment of a Fraud Act by the Law Office.
- 4) Development and enactment of Proceeds of Crime Act to enable the management of assets of proceeds of crime.

**The threat level of ML/TF was rated high.**

#### iv. Smuggling

The magnitude of the smuggling of precious minerals cannot be determined since comprehensive statistics on this crime is not available. However, the smuggling of essential commodities and other goods such as fuel, palm oil, motor bikes, rice and so on is occurring. In 2014, one case of smuggling (false declaration) that involved one supermarket was investigated found guilty of smuggling a container of goods (the case is indicated in the box below). There were no confiscations of proceeds and/or property relating to the above predicate offence but penalty was levied. Mostly, transactions take place out of the bank, making it very difficult to determine the total worth of this activity. Sierra Leoneans and non-Sierra Leoneans are found to be involved in smuggling.

Threat

Vulnerabilities

- 1) Porosity of the border:

Sierra Leone's border is so porous that law enforcement agencies are unable to deploy personnel to man those borders, which makes it conducive for illegal activities to be conducted.

- 2) Lack of coordination and commitment of law enforcement agencies deployed on the border.

The following measures are therefore recommended to lessen the extent of smuggling activities in the country:

- 1 Increase the presence of LEAs at the border points.
- 2 Confidence building amongst LEAs.

**The threat of ML associated with this offense is rated high.**

v. **Counterfeit Products and Intellectual Property**

A close look at the plenitude of fake products in Sierra Leone markets can create the impression that counterfeiting of products is widespread. Counterfeit products range from pharmaceuticals, music to other goods. Even though there is no comprehensive data on this predicate offence, it can be summarized that it is

capable of generating billions of Leones annually. Most times proceeds from pirated products are being comingled with income from legitimate sources and then kept in banks. Such proceeds can also be invested in real estates and luxurious goods. Sierra Leoneans and non-Sierra Leoneans alike are involved in the piracy of products. Even though the AML/CFT Act, 2012 addresses this predicate offense, it was rated high because of its tendency of comingling legal proceeds with illegal.

The illegal importation, distribution and sales of fake, counterfeit and substandard pharmaceutical products in Sierra Leone pose a significant and growing threat to public health and safety. This phenomenon has the potential to threaten the post Ebola recovery plans which aimed among other things to strengthen public health care system. In 2013 The Government of Sierra Leone through the Ministry of Health and Sanitation has in a very massive swoop destroyed counterfeit, expired and substandard drugs worth over six (6) billion Leones. This destruction exercise

that took place countrywide is the record high in all counterfeit drug destructions in the country, a development that continues to strengthen the public health safety profile of the country.

It is important that the following measures are taken to help address weaknesses in the existing framework to counter counterfeit products and violations of intellectual property rights:

- (i) Supervisory agencies should establish partnership with law enforcement agencies against all perpetrators dealing in counterfeit products including pharmaceuticals.
- (ii) Institute stringent supply chain security for some products and pharmaceutical ingredients.

### **Human Trafficking and Migrant Smuggling**

Domestic trafficking of children in particular is prevalent in Sierra Leone, but its magnitude cannot be determined owing to lack of comprehensive statistics. Traditional beliefs/practices coupled with poverty are the main reasons for the continued occurrence of domestic trafficking. According to Diane Publishing

(<https://books.google.com.sl>), Sierra Leone is a source, transit and destination country for children and women subjected to trafficking in persons, specifically forced labor and commercial sexual exploitation and that victims come largely from rural provinces and refugees communities, within the country and are recruited to urban and mining centers for the purposes of commercial sexual exploitation, forced domestic work and forced service or labor in petty trading, street crime and begging.

Victims may also be found in the fishing and agricultural sectors or are subjected to forced prostitution or forced labor through customary practices such as forced and arranged marriages. The incidence of transnational trafficking is relatively small, but Sierra Leone is likely still a source and destination country for the movement of persons to destinations in West Africa, the Middle East and Europe. Sierra Leone might also be a destination country for children trafficked from Nigeria and possibly from Liberia and Guinea for forced begging, forced labor and commercial sexual



exploitation. Sierra Leone has not fully comply with the minimum standards for the elimination of trafficking, however, it is making significant efforts to do so, despite limited resources, thus in Tier 2.

The Anti -Trafficking in Persons Act 2005 prohibits all forms of human trafficking and prescribes a maximum penalty of 10 years imprisonment for both sex and labor offenses. However, this penalty is sufficiently stringent but not commensurate with penalties for rape, which carries a maximum sentence of life imprisonment.

- In 2009 two convictions were made. A Sierra Leonean woman was convicted of "conspiracy to commit trafficking" after luring a 6-year old girl to Kailahun, where she attempted to sell the child. She was sentenced to 7 years imprisonment.

The other was a Guinean convicted of the same crime and was sentenced to 8 months after transporting and attempting to sell his son in Sierra Leone (Diane Publishing, see <https://books.google.com.sl>). In 2012, four cases were reported and were kept in view.

- In 2013, nine cases were reported and were kept in view.
- In 2014, twenty-two cases were reported, twenty-one were kept in view and one was discharged at the Magistrate Court.
- In 2015, ten cases of human trafficking relating to child trafficking, trafficking for sex and labour were recorded. One of these cases was prosecuted. No asset and money was confiscated. Money was however laundered through bank to bank transactions.

International trafficking of persons has also become a huge concern. The high unemployment rate leading to an insatiable desire of Sierra Leoneans to seek for greener pastures overseas is creating a favourable atmosphere for recruitment agencies capable of undertaking activities of human trafficking to thrive. The total number of people trafficked to especially the Middle Eastern countries is yet to be known and any prosecution is yet to be done. The amount of money involved in the trafficking itself remains a mystery.

Human trafficking is rated Medium according to responses because of the difficulty in identifying cases and lack of control measures to deter people from travelling to other countries enroute to the countries of so called employment.

#### **vi. Tax Evasion**

Tax evasion is an elusive crime in Sierra Leone. There is anecdotal evidence of its existence in clearing goods at ports of entry into the country or border areas. The Transnational Organized Crime Unit however handled a case of tax evasion that involves the sum of €30,000. The outcome of this case is not known in the absence of information on the extent of the crime.

the ML threat was rated as medium.

## **2.2 NATIONAL VULNERABILITY ASSESSMENT**

National Vulnerability looked at the country's overall vulnerability to ML/TF by considering how well law enforcement agencies, supervisory authorities and judiciary are equipped to tackle the problem. This entailed assessing the level of expertise, integrity and available resources as well as the level of cooperation among these agencies. In assessing the national vulnerability the following factors were considered:

- Capacity of financial crime investigators
- International cooperation in criminal matters
- Integrity of financial crimes investigators
- Integrity and independence of the judiciary
- Public sector integrity
- Structural weakness of the economy- the size of the informal economy
- Domestic Cooperation
- Suspicious Transaction Data Analysis
- Identification infrastructure
- Integrity and Independence of Asset Forfeiture Investigators

### **2.2.1 METHODOLOGY**

The team relied on data acquired from primary and secondary sources. The team

conducted interviews and administered questionnaires while soliciting information from primary sources. The secondary sources include available data and other records maintained in files by various institutions and reports dealing with predicate crimes.

The exercise was confined to mostly the western area of Sierra Leone as the EVD containment measures put in place by GoSL greatly hampered the extension of the team's exercise to the provinces.

### **2.2.2 DATA ANALYSIS**

Owing to the fact that records/ information available to the team cannot be said to be in tandem with current statistical methods of analysis, the team was able to analyze the data based on the collective knowledge and experience.

### **2.2.3 CAPACITY OF FINANCIAL CRIME INVESTIGATORS**

<b>MEDIUM (.40)</b>
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An effective AML/CFT regime requires effective and highly skilled law enforcement agencies to tackle issues relating to money laundering and terrorism financing and associated predicated offenses. In Sierra Leone, the Financial Intelligence Unit and the police are central to the investigation of financial crimes hence an assessment of capacity of these institutions in handling cases relating to money laundering and terrorism financing.

The Anti - Money Laundering and Combating of Financing of Terrorism Act, 2012 provides the legal framework for the fight against money laundering and terrorism financing. It also established the Financial Intelligence Unit as a specialized and autonomous institution mandated to coordinate the national effort in complying with international standards. The Financial Intelligence Unit evolved to autonomous status in 2013 after the appointment of its Director and migration of its operations outside of the Bank of Sierra Leone premises. The FIU receives disclosures of financial information and analyses the information with a view to developing intelligence for dissemination to appropriate law enforcement agencies.

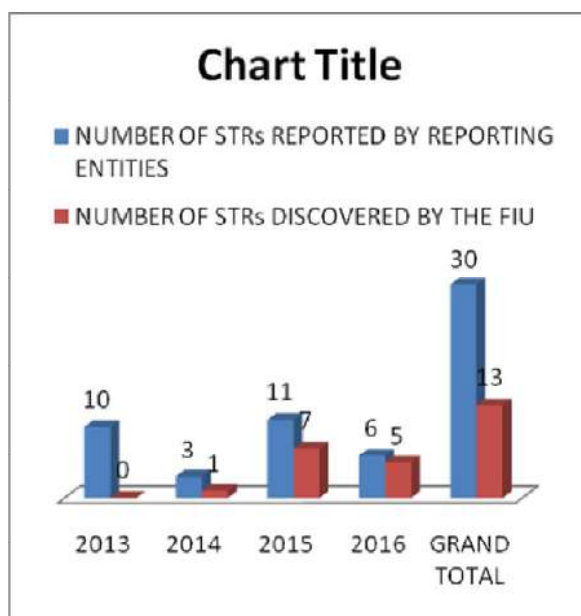
In 2013, a total of 10 STRs were either received or generated by the FIU and all 11 STRs were processed and resulted into a money laundering investigation.

Similarly, in 2014, a total of 4 STRs were either generated or received, 6 of which lead to full blown money laundering investigation.

In 2015, a total of 18 STRs were either generated or received, 12 resulted in money laundering investigation.

Since January 2016, a total of 11 STRs have been either received or generated of which 15 have either been investigated or are under investigation.

In summary, a total of 43 STRs were reported or discovered as represented below:



Penalties have been imposed for non-compliance. In 2012 for instance, the BSL imposed a fine of Le 15,000,000.00 (Fifteen Million Leones) on a bank for non-compliance. In March 2015 also, the High Court of Sierra Leone ordered the unfreezing of the account of Wealth Builders Network (WBN), an account containing proceeds of crime for which freezing orders were instituted since 2010. Following the court order, an amount of Eight Hundred and Forty Million Leones (Le 840,000,000.00) were withdrawn ostensibly to pay fine and legal fees. Whilst the said order specify the fine, the amount for legal fees was not specified. Consequently, the BSL penalized the bank that complied with the said order by surcharging their current account with BSL with the amount withdrawn from the proceeds of crime account.

On the whole, the penalties imposed on reporting entities for failure to report STRs have been few and far apart. This is because the Unit is yet to develop a schedule of penalties.

To date, the Anti Money Laundering legislation has really not been tested to a point of obtaining conviction in a competent Court of Law. Conviction is a key test of the investigator's knowledge and professionalism of investigating and prosecuting Money Laundering Offence.

The Financial Intelligence Unit is an integral member of the Transnational Organized Crime Unit (TOCU) which is an inter-agency partnership of 14 national Institutions committed to fighting the illicit trafficking of drugs and organized crime (including Money Laundering). At TOCU Headquarters, a small dedicated team of five (5) personnel including a supervisor are looking at money laundering investigations. In the regions, the crime officers supervise personnel to investigate such crimes. Few personnel at supervisory level have been trained externally on Money Laundering investigations. The bulk of the investigators rely on local training by their supervisors. Investigation Techniques is basically the general investigation Techniques with no specific techniques relating to the investigation of Money Laundering offences.

The Sierra Leone Police trains criminal investigators who double as financial investigators. There is no dedicated team of Financial Investigators within the Sierra Leone Police for money laundering offences. The Sierra Leone Police is yet to train a forensic Accounting Specialist. There is no financial analysis software to enhance financial investigations relating to money laundering.

Cybercrime which is committed using the modern tools of information technology is now a fast growing phenomenon and in the absence of a law criminalizing this illegal practice, it will be difficult to eliminate it as a threat. There is dearth of knowledge and skill on forensic investigations. Law enforcement training should include forensic accounting training.

Resources for investigating money laundering offences are minimal and restricted to routine criminal investigations. This suggests the need to improve cost effectiveness in the allocation of resources to the respective agencies.

The supervisory authority i.e. Bank of Sierra Leone, Sierra Leone Insurance Commission, General Legal Council and law enforcement authorities need to step-up their effort by using their legal authorities to obtain all relevant information to identify non-compliance by their reporting entities and impose penalties that are proportionate and dissuasive.

Reporting entities are not being appropriately penalized for compliance failures, partly because regulatory authorities are trying to foster good working relationship with their operators and rarely employ punitive measures. The FIU also cited the lack of a developed schedule of penalties for non-compliance as a reason.

There is a problem of data collection/gathering and management. In Sierra Leone, MDAs lack the culture of gathering data in the dispensation of their duties, and consequently negatively impact data management systems and analysis.

Effective data management and sharing requires modern data storage hardware as well as up to date data sharing software which will also guarantee safety of the data stored and/or shared.

A major impediment to the ability of agencies to better manage and share data is the availability of IT hard and software for the said purpose. Where these are available, the running and maintenance cost of such tools have been exorbitant and experts not readily available to carry out routine checks and necessary repairs when needed.

Law enforcement should be provided with compatible data management and sharing hard and software capacity to enable effective storage and sharing of data in a secured manner.

#### 2.2.4 INTERNATIONAL COOPERATION IN CRIMINAL MATTERS

**MEDIUM** (0.41 - 0.60).

The Financial Intelligence Unit (FIU) in furtherance of international cooperation in dealing with exchange of information on money laundering including investigations has signed Memorandum of Understanding with counterpart institutions in Togo, Ivory Coast, Burkina Faso, Nigeria, Niger and Cape Verde. An MOU with Ghana and Liberia is expected to be signed soon. It has also signed a similar MOU with the FIU of the Republic of Zambia.

The FIU has applied for Egmont membership but it is yet to be accepted by that body.

From 2013 to 2016, the FIU received 8 requests from its external counterparts as follows:

<b>YEAR</b>	<b>NUMBER OF REQUESTS RECEIVED BY FIU</b>
2013	0
2014	2
2015	3
2016	3
<b>TOTAL</b>	<b>8</b>

The FIU has applied for Egmont membership but it is yet to be accepted by the body

The International Criminal Police Organization (INTERPOL) is the world's largest internal police organization with 190 member countries. It has the machinery developed for the timely and efficient exchange of crime investigation information between police authorities on a world-wide basis. The NCBs are the lifeblood of INTERPOL, contributing to the criminal databases and cooperating together on cross-border investigations, operations and arrests.

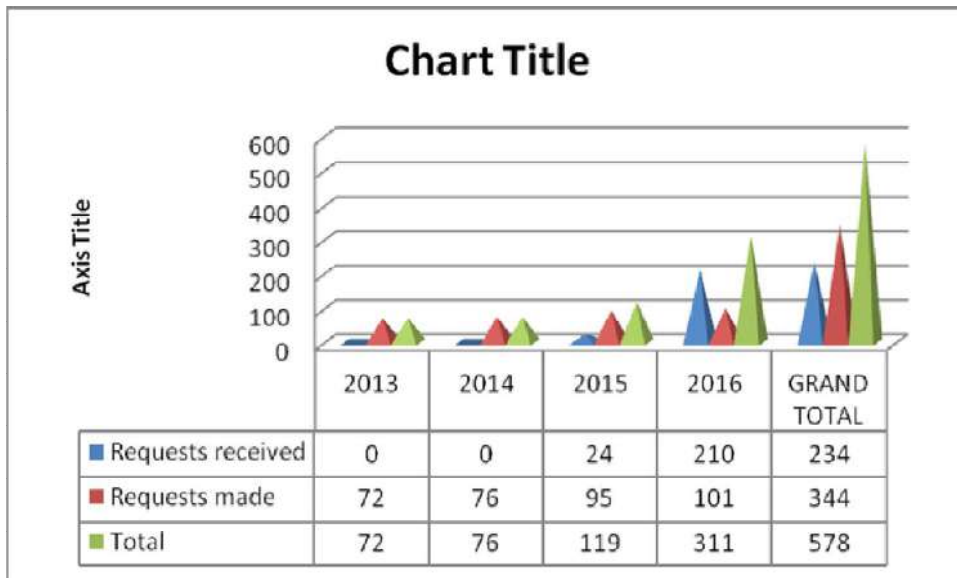
NCB Freetown, like all other NCBs is mandated to ensure and promote the widest possible mutual assistance between all criminal police authorities within the limit of the law existing in different countries and in the spirit of Universal declaration of Human Right, and help to suppress transnational crimes by locating and apprehending fugitives in and outside Sierra Leone. The table below indicates examples of cooperation with other NCBs across the world between 2010 and 2013.

YEAR	COOPERATION WITH (COUNTRY)	OFFENCE	ACTION
2010	Conakry, Guinea	Fraud	Facilitated the arrest and transfer of suspect to Freetown
2010	Ghana	Fraud	Facilitated the arrest and transfer of suspect to Ghana
2010	London, UK	Stolen vehicle	Facilitated the arrest of stolen Vehicle from London, UK and returned to the owner
2011	Conakry, Guinea	Child stealing	Facilitated the arrest and transfer of suspect to Conakry , Guinea
2011	Conakry, Guinea	Larceny involving one fishing boat	Facilitated the arrest of suspect John Martin in Freetown
2011	Monrovia, Liberia	Larceny servant	Facilitated the arrest and transfer of suspect to Monrovia
2011	South Korea	Unknown (fugitive)	Facilitated the arrest and transfer of a south Korean fugitive
2012	U.S.A	Murder	Facilitated the arrest and extradition of a Sierra Leonean / US national to the U.S
2013	Monrovia, Liberia	Obtaining credit by fraud other than false pretense	Facilitated the arrest of a suspect (French National) in Monrovia

Source: NCB-Interpol-Freetown, Sierra Leone 2016

The chart below also shows the frequency of requests made and received by NCB-Freetown from 2013 - 2016:





This notwithstanding, there is this major challenge of delay to respond to request made by NCB-Freetown by some NCBs (UK, Singapore etc). This may be risky and have the tendency to undermine speedy investigations.

#### 2.2.5 INTEGRITY OF FINANCIAL CRIMES INVESTIGATORS

**MEDIUM (0.66)**

A couple of government institutions have Financial Crimes Investigators. These include the Sierra Leone Police (SLP), ACC and the FIU. The views regarding the integrity of Financial Crimes Investigators in these institutions vary. The ACC and the FIU currently enjoy the confidence of respondents in terms of integrity. The same cannot, however, be said of the SLP.

In principle, the SLP stands for professionalism and delivering quality service that the public can rely on. Unfortunately, in reality, the public holds a contrary view. Sierra Leone's Anti-Corruption Commission's National Corruption Perception Survey conducted in 2014 and 2015 featured the SLP as the most corrupt institution. Corruption, being an integrity issue, has the tendency to dent the image of the SLP and consequently impair public confidence in the institution.

Respondents attributed this to poor emoluments, lack of requisite training, lack of logistical support and lack of motivation in the SLP. This is a major vulnerability and hence impact financial crime investigations, which may have the tendency to undermine its credibility. The FIU and the SLP, in recent times partner in a good number of financial crimes investigation. With the high level of integrity exhibited by FIU officers, there has been a sharp increase in the number of financial crimes cases been sent to the FIU for investigation. Given, the current view of the public and in particular respondents, the threat posed in terms of the integrity of financial crimes investigators can be stated as medium/high.

#### 2.2.6 INTEGRITY AND INDEPENDENCE OF THE JUDICIARY

**MEDIUM** (0.41 - 0.60)

It is difficult to ascertain the integrity of the judiciary on the basis of empirical records. That notwithstanding, anecdotal evidence abounds of interference into cases when they are under investigation. Interferences come through phone calls, nocturnal visits and other types of collusion activities to influence outcomes.

Section 120(1) of the Constitution provides that judicial power in Sierra Leone shall be vested in the judiciary. The administration of justice is the focal and foremost function of the judiciary. There is no gainsaying that the role of the judiciary is critical in combating crime and money laundering. However, evidence abounds about the lack of independence of the institution, undue delay, miscarriage of justice and judicial compromise in matters of criminal justice.

The independence of the judiciary is undermined by the fact that the head of the judiciary and other senior members of the bench are appointed by the President. This includes the Director of Public Prosecutions (See Section 66(2) of Sierra Leone's 1991 Constitution). This allows for undue interference in the work of the judiciary.

On criminal matters, it is the responsibility of the Director of Public Prosecutions (DPP) to determine prosecution, and has powers to nullify prosecutions even when there is compelling evidence for conviction to be obtained in the matter. (See Section 64 Subsection 3c of Sierra Leone's 1991 Constitution).

In 2010, the Anti-Corruption Commission published its national public perception survey on corruption which placed the judiciary in the six topmost institutions where corruption is most prevalent. 75% of respondents also identified the judiciary as 'being most responsible for the failure of the war against corruption'. For many who have had contact with courts, the survey merely confirmed a long-held view that the judiciary has remained corrupt throughout the post-conflict period despite huge capital and other investments to reform it.

The judiciary is often criticised for its failure to adjudicate cases fairly and dispense justice to all regardless of socio-economic status, political affiliation or other sentiments. There have been reports of legal practitioners influencing the outcome of cases not by the strength of evidence but through unwholesome relationship with magistrates in particular, to gain an unfair advantage in matters before their courts, most often in exchange for money. There has been an increase in legal malpractice complaints to the General Legal Council (the law practice regulatory body), with legal practitioners found wanting for breach of the practitioners code of ethics; accusation of misdeeds such as tampering with or misappropriation of clients' funds, conflict of interests and negligence. The general reluctance of lawyers to represent clients wishing to bring legal action against their transgressing colleagues and the perceived inability of the regulatory body to act robustly nurtures the wrongly but widely held belief that lawyers are above the law. The Law Officers Conduct of Prosecution Public Notice 34 states "nobody has the right to arrest a barrister and solicitor unless he/she may have obtained legal permission from the Attorney-General and Minister of Justice". In other words, lawyers cannot be prosecuted in the court of Sierra Leone without the legal consent of the Attorney General. This process is not only procedural and time consuming, but also projects to the fact that the lawyers are somehow above the law. This is exactly misunderstood by many law enforcement agencies to be blanket immunity.

In spite of the above, Section 27(3) of the 1991 Constitution under protection from discrimination disagrees with this by saying "the expression 'discriminatory' means affording different treatment to different persons attributable wholly or mainly to their respective description by race, tribe, status, sex, place of birth, etc whereby persons of one such descriptions are subjected to disabilities or restrictions".

With the perceived high level of corruption within the judiciary, it is widely believed that compromises are the endgame for financial crime cases involving huge amounts. Delay in trials also serves to undermine the credibility of the legal system. It is important that the judiciary is adequately trained on the procedural aspects of ML and TF cases.

### 2.2.7 PUBLIC SECTOR / FINANCIAL INTEGRITY

**MEDIUM/HIGH( 0.61 – 0.80)**

The latest international Corruption Index puts Sierra Leone among the most corrupt countries in the world. This index alone speaks volumes about the low level of financial integrity in the country. One of the reasons that have been advanced over the years for this state of affairs is the low average remuneration, especially among government employees compared to employees in NGOs and those in the private sector.

Although actual level of financial integrity is difficult to determine, yet the number of corruption cases reported in newspapers, those prosecuted and convicted has been high for a small nation like Sierra Leone.

The ACC's Pay-No-Bribe Campaign report reveals that there is high level of bribery and corruption in the SLP, the health and education sectors. Even the ONS' National Threat Assessment (NTA) for 2016 and 2017 rated corruption high.

Despite the continued high numbers of reported cases of alleged corruption, the Anti-Corruption Commission (ACC) has done a good job in securing an adequate number of convictions in the High Courts. From June 2001 – January 2014, ACC secured 95 convictions.

In addition, the National Corruption Perception Survey conducted by the ACC in 2014, indicates that the most corrupt operatives are in government employment. And even more disheartening is the report's conclusion that the law enforcement officials, especially police personnel, are the most corrupt. Government is the highest employer, employing not less than 70 % of the total work force. Government employees are generally assigned the tasks of executing government policies, providing services to the general public, including but not limited to law enforcement. If such a high percentage of employees are also deemed to be most corrupt, then avenues exist for accomplices to be harvested from such a group of Sierra Leoneans by

money launderers to provide them with advice and professionals business infrastructure that they may need to hide the true nature of their committed money laundering schemes.

Sierra Leone is not yet blessed with the luxury of information on several parameters such as number of insolvencies. In the last forty years the closure of banks, such as Bank for Credit Commerce International (BCCI), International Bank for Trade and Industry (IBTI), the collapse of companies like James International as well as closure of some sole proprietorship are the only indications of insolvency that we have information on. But alas, none of these have ever been tested in our courts to determine any insolvency offences. It is no wonder that companies set up shop, enjoy some tax holidays as well as other investment incentives and within the limits of such incentives, some of these companies either fold up, or change ownership and/or name of business to commence operations as a new entity

#### **2.2.8 STRUCTURAL WEAKNESS OF THE ECONOMY- THE SIZE OF THE INFORMAL ECONOMY**

**MEDIUM/HIGH(0.61 – 0.80)**

The economy of Sierra Leone, and indeed economies the world over, is made up of two main sectors - the formal and the informal. The informal sector is an oxymoron - on one hand it is an unorganized 'nuisance' sector whose members, for example, do not pay any form of tax; on the other, it provides jobs and increases incomes of the most vulnerable groups in a city - the very low income group. The informal sector's operations are largely unregulated and thus contribute very little to tax revenues. According to the World Bank, 40-80% of all economic outputs are carried out in the informal sector in developing countries, particularly in cities. In Sierra Leone, the World Bank (2010) estimated that not less than 45 % is contributed to the Gross Domestic Product (GDP) by informal sector activities.

The urban informal sector has been providing basic needs for urban populations and migrants at affordable prices and qualities. As a result of the failure of the 'growth with equity' strategy, the focus of development shifted to strategies on 'employment generation, since it was found that the growth-with-equity strategy did not actually

generate employment. Even though this did work to an extent, the formal sector, which these developmental strategies were aimed at, was not able to absorb the multitudes of semi-skilled and unskilled migrants to the city. The urban informal sector has been able, on the other hand, to generate employment for these people with few skills or 'undesirable personal characteristics', since it uses technologies which were appropriate and labour-intensive. While the stress on appropriate technologies was a desirable direction in development strategies, a need for developing skills for these technologies arose. Thus, there was a shift in focus towards the development of human resources. The urban informal sector has, in this respect, absorbed migrants with little or no skills, trained them in various skills in an informal apprentice way and used it in its own growth - using very little of the formal education processes.

The present thrust of most strategies has been the provision of basic needs like food, clothing, shelter etc. to the population and effect overall long term growth as a result. The informal sector is made up of a myriad of economic activities. Informal sector activities include but not limited to mining, transport, trade (both wholesale and retail), agriculture (including trade in export crops such as coffee and cocoa etc.), money transfers, second hand car dealerships etc.. The medium of exchange in 98.5 % of the transactions is in cash

As the name implies, these informal activities are not captured within the ambit of the tax regime. This is because of many reasons. Firstly, the cost of administering such tax laws could be high in relation to returns. Secondly, there is an apparent lack of adequate and requisite trained manpower to undertake effective monitoring of such informal economic activities for tax purposes. Third, there are no laws geared toward the formalization of informal activities. The current investment code suffers from any incentives for informal activities to be transformed into formal entities.

It is also interesting to note that some high profiled occupations such as legal practices, medical practices, retail and wholesalers, and even accountants, to name but a few, can also operate as informal economic activities through several ways. They can evade tax by understating their yearly turnover. They also can keep transactions off the records. Over-taxation, lack of enforcement of policies, inability to conduct effective monitoring, and no payment of tax returns are some of the reasons responsible for the existence and rise in the informal economy.

With no formal means to surveillance and/or monitor these transactions vulnerability to money laundering activities is huge indeed. The huge vulnerability to underhand dealings that are highly cash intensive has led us to believe that the exposure of this sector to money laundering is huge, hence our rating of medium to high (0.61- 0.80). In light of the above, it is important that the Financial Inclusion Strategy of the country is effectively implemented and AML/CFT concerns are addressed to avoid potential conflict of these two goals.

#### 2.2.9 DOMESTIC COOPERATION

<b>MEDIUM / High (0.80).</b>
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There is no committee or any Joint Committee that has been created for the purpose of combating or investigating only ML cases or related offences. However, the New National Security Architecture provides for people-centred security wherein approaches to security /security related matters are viewed from a Multi-agency perspective.

This Architecture enables the National Security Council (NSC) to create committees when deemed necessary, as provided for in Part II, Section 5, Subsection 1 of the National Security and Central Intelligence Act 2002 -*“For the better discharge of its functions under this Act, the Council shall have such committees as it considers necessary”*

Also, Part II, Section 4, Subsection 2b of the Act establishes the NSC " *to ensure the gathering of information relating to the security of Sierra Leone and the integration of the domestic and foreign security policies so as to enable the security services and other departments and agencies of government to co-operate more effectively in matters relating to national security*"

- a) In this regard, several committees have been created to share information and intelligence, discuss joint initiatives and instigate action on security (related) matters, including both domestic and transnational crime, such as ML/CFT, at national, regional, district and/or chiefdom levels. These committees include among others the National Security Council Coordinating Group (NSCCG), Strategic Situation Group (SSG), Joint Intelligence Committee (JIC), Joint Coordination Centre (JCC), Transnational Organised Crime Unit (TOCU), Seaport Cooperation (SEACOP), Integrated Intelligence Group (IIG), Joint Maritime Committee (JMC), and the Decentralized Security Committees. These committees constitute intelligence officers, security coordinators, investigators, prosecutors etc.

Though there is no committee or any Joint Committee created for the sole purpose of investigating Money laundering, yet, it is evident that, by their composition and mandates, all security committees at all levels work to combat predicate offences of money laundering and money laundering itself.

There is no legal framework that allows for joint investigations by relevant investigative units but such investigations are done base on the strength of a Memorandum of Understanding, and the spirit of inter-agency collaboration and cooperation.

This notwithstanding, there is in existence a National Counter-Terrorism Committee that comprises intelligence collection, investigations and operations components. This is multi-sectoral in nature.



Some of these committees are decentralized to provide early warning to the Government of the existence or likelihood of any security threat including money laundering and issues of terrorist financing. This includes border districts and chiefdoms.

Findings indicate that Sierra Leone has over 800 border crossing points, over two-thirds of which are unmanned. This means that the borders are not properly demarcated, safe and secured, and make it relatively easier for people of various nationalities to involve in money laundering and other transnational criminal activities. Insufficient manpower to man the borders, a weak and under-resourced security sector can undermine the ability to effectively and efficiently coordinate activities to combat money laundering, terrorist financing and other transnational organized crime-related activities.

Effective and efficient security coordination and cooperation is a powerful tool to address state security threats including money laundering and terrorist financing. Therefore, the security sector should be among others highly professional, well-motivated and operationally independent.

In the midst of all this, there is an improved sense of inter-agency cooperation. Domestic cooperation on state security issues, ranging from national to transnational organized crime is considered to be very good at all levels (national, regional, district and chiefdom) save for isolated incidents.

#### 2.2.10 SUSPICIOUS TRANSACTION DATA ANALYSIS

<b>Low / Medium (0.31).</b>
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Sections 41 and 42 of the AML/CFT Act 2012 make it mandatory for diverse reporting entities, supervisory authorities and other government agencies like the Auditor-General's Office to report all transactions or activities that are deemed suspicious to the FIU. Current trend shows that most of the STRs come mainly from the Financial Institutions (Banks).

The handling of STRs is marred by several challenges including but not limited to the following:

Fluctuating cooperation from reporting entities (FIs), even though the Unit from time to time receives STRs from the FIs but has found it difficult to have them provide much needed supporting information (KYC documentation, Bank statements, Payment vouchers etc.) to undertake detailed analysis.

Also, there is little or no feedback from LEAs particularly the SLP. In instances where the Unit has received cooperation from LEAs there is always the issues of delay and non-follow ups on investigations. Some LEAs are just non-cooperative either due to an imaginary fear of abdicating their functions or seem not to be conversant with what the FIU represents or its role.

STRs require in-depth information from the reporting entity and any other relevant information that may have specific links to that particular investigation. At the end of each investigation a report on the findings was prepared and forwarded to the necessary law enforcement agency and the STR uploaded into the FIU database.

The M&A department in the process of investigating STRs ensure that:-The reporting entities meet the required guidelines of proper verification and identification of different categories of customers. Making sure that the reporting entities did perform Know Your Customer (KYC) and Customer Due Diligence (CDD) and the necessary documentations were filed and can be produced as and when needed. That the different categories of customers were properly vetted and the information stored appropriately. E.g. For

Politically Exposed and High Risk Customers, enhanced Customer Due Diligence was done.

The bank statements and all other requested documents that might aid the investigation were certified true copies. The M&A / FIU department, in the course of an investigation and analysis of a bank statement, requests for proof that will establish the origin and destination of funds and the purpose of certain transactions. The department prepares reports and statistics on STRs, completed and on-going investigations on periodic basis. Request made by other Investigating agencies are directly and swiftly handled by the M&A Department.

In the past, all completed STR investigation files were forwarded to either the SLP, Law Officers Department or the Anti-Corruption Commission. Now, with the FIU Legal Division fully functional, it prosecutes certain alleged money laundering offences by means of a Fiat issued from the Attorney General's office.

Given the recent strides of the FIU with regards strengthening the Legal and Operations Departments, the team rates the handling of STRs at medium

#### **2.2.11 IDENTIFICATION INFRASTRUCTURE**

<b>MEDIUM (0.45).</b>
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In an attempt to identify and collect information relevant to identification infrastructure in Sierra Leone, an exercise was undertaken in order to gauge the reliability and accessibility of identity documentation.

The National Registration Secretariat (I.D Cards), Births and Deaths, Immigration Department (Passport), National Electoral Commission (Voters I.D), and Sierra Leone Road Transport Authority (licenses) are among institutions that were targeted.

##### **a) The National Registration Secretariat**

The National Registration Secretariat (NRS) has a statutory mandate to register and issue National Identification Cards ( i.e I.D Cards).

The data collected showed that the NRS is reliable when it comes to providing safe registration data for all citizens and non-citizens when required for verification by any anti-money laundry agency (AML) / purposes. It was also revealed that the identification system is reliable when it comes to using their available data for vetting.

There is the existence of anti-counterfeiting measures on both the physical document and the electronic stored records of NRS. It was however reported that NRS is experiencing an average of five (5) fraudulent documents per month.

The table below gives an impression of how many I.D cards were obtained from 2013 to 2016.

YEAR	No. OF I.D CARDS OBTAINED	TOTAL
2013	1,110	<b>7,467</b>
2014	1,040	
2015	2,089	
2016	3,228	

Sierra Leone has a population of approximately 7 million people. The table above suggests that it's about 10% of the populace that obtained the National I.D cards over a period of four years. Difficulty / inability to vet foreigners, centralization, lack of personnel, lack of equipment, electricity challenge are some of the reasons responsible for the above.

#### b) Births and Death

Respondents indicate that the Births and Deaths documentation proved to be very unsecured and inefficient. The Births and Deaths certificates do not have any anti-counterfeiting features. The Births and Deaths Office could actually not detects any fraudulent activity all by themselves except when alleged fraudulent cases relating to Births and Deaths documentations are reported by other security sector institutions.

The number of eligible members without the Births and/or Deaths certificate(s) is estimated to be around 500,000. The challenges faced by the Births and Deaths Department are lack of computers, lack of proper storage facility for document and the absence of vehicles, unavailability of funds, etc.

#### c) Immigration Department (Passport) and National Electoral Commission-NEC (voters I.D)

From the data gathered, both the Immigration Department and the National Electoral Commission (NEC) appeared to have comprehensive record of all eligible members, and both institutions proved to be reliable when it comes to vetting. They both can provide correct information for all eligible citizens and non-citizens if verification is needed by AML under a memorandum of understanding.

Also, there is the existence of anti-counterfeiting measures on both the physical document and the electronic stored records of the Immigration Department put it at two weekly and the National Electoral Commission product (including Passport and Voter's ID).

Though the Immigration Department and the National Electoral Commission said they have anti-counterfeit features on their cards but incidents of fraudulent activities are still reported to the respective institutions by the police. Immigration Department put it at two weekly and the National Electoral Commission said most of their recorded incidents occurred during election period.

The number of eligible members without passport and voter I.D card in Sierra Leone is unknown.

It was revealed that most people in the provinces are finding it difficult to obtain passport because of the centralized nature of their operation.

The Immigration Department stated that they had challenges with the vetting of individuals belonging to the fullah, Mandingo, Susu ethnic group especially when those ethnic groups are found in Guinea and Liberia. They also lack personnel and vehicles. A major vulnerability also is 'insider threat' – personnel get corrupted in exchange for issuing passports to unqualified people.

The Birth and Deaths Office appeared to be the foundation of identity infrastructure in Sierra Leone. A document or certificate secured at the Births and Deaths could create the necessary condition to attain other essential documents e.g. passport, National ID cards etc.

On the fraudulent angle, there seems to be very weak coordination among identity institutions. This is reflected on the ineffective checks and balances in order to curb threat. The absence of feasible or electronically detected anti-counterfeit feature is posing serious challenge.

The failure of complying with the vehicle transfer document to indicate the rightful owner of the property is another challenge for the Immigration Department, while the NEC experienced difficulty to identify Sierra Leonean along the border towns.

#### d) Sierra Leone Road Safety Authority (SLRSA) - Licenses

The SLRSA holds a record of vehicle owners in the country. SLRSA can provide information on owners of registered vehicles if verification is needed by AML. Respondents indicate that not all vehicles are legally registered in the country.

Probing showed that the record system of the SLRSA though carefully kept but is not updated as some existing vehicles are being sold without completing the transfer document.

There are anti-counterfeiting features on the licenses. The stored records have physical and electronic security measures. Incidents of fraudulent activities are reported to SLRSA especially incidents involving “Okada” riders who occasionally change their VRN plates. Also, few reports of fraudulently obtained Sierra Leone driver’s licenses have been received by SLRSA from a foreign embassy, involving nationals from Francophone countries in the sub-region.

### 2.2.12 INTEGRITY AND INDEPENDENCE OF ASSET FORFEITURE INVESTIGATORS

**MEDIUM / HIGH(0.60).**

Respondents from the Trans-national Organized Crime Unit (TOCU) stated that before the establishment of the Unit, a very renown case had been investigated involving the seizure of hundreds of pounds of cocaine at the Freetown International Airport. Investigations were carried out by the Criminal Investigation Department and suspects were tried under a weak Pharmacy and Drug Law of 2002.

According to the respondents, the investigations were done fairly without fear and the laws were enforced to the fullest, leading to the conviction of almost all the culprits. The investigators stated that they received strong political will from the government, including financial enhancements. To point out the strength of the investigators’ integrity, a respondent stated that he refused the sum of Ten Thousand Dollars (US\$ 10,000) from relatives of the culprits.

Other respondents cited the existence of the Anti-Money Laundry Act as a safeguard that provides for credible investigations.

- From the foregoing, it was noted that;
- A. Although the police believed that the laws were strong for judicial prosecution, journalists believed the laws are weak and incomprehensive to cover all cases of money laundering and narcotic trafficking
  - B. It was discovered that apart from salaries and administrative costs, investigation officers receives very minimal rewards, except for moral gratification for investigations regarding money laundering.

It was however discovered that no overt fear, favour, or influence from the police top ranks and political figures were noted. However, public perception holds that investigation outcomes are influenced by political figures at police high command. Respondents do not believe that investigators carry out their jobs with a free hand. It is believed that the powers that-be interfere by creating restrictions for investigations, thus frustrating investigation efforts. Instances were pointed out that while some seizures have been political ploy, other investigations are also transferred so as to make them irrelevant. Some investigators have lost their investigative stamina for fear of being transferred to a very remote location, or miss promotion. It was cited that promotions is the key obstacle while favours are said to have been made from other powerful persons in the society.

It was difficult to establish whether investigators are making correct use of their powers, but a respondent at the National Asset Commission stated that a huge number of confiscated assets were handed over to the owners after a commission of Inquiry recommended thus. It can be concluded from this instance that the investigations leading to these confiscations were erroneous. However, it must also be pointed out that there was no clear authority in charge of these confiscations. Independent journalists and legal practitioners believe these confiscations were politically motivated. They pointed out that investigators look over their shoulders before taking decision.

Assets forfeited in the 2008 Cocaine convictions where vehicles, airplane, and boats. There have been instances of forfeiture of vehicles and motor cycles as a result of crimes committed. Some respondents also are of the few that most assets seized in the past were politically motivated on allegations of corruption by government officials.

Respondents stated that the assets seized following the 2008 Cocaine convictions were distributed among key agencies of government including the Criminal Investigation Department, the Sierra Leone Law Court and the Trans-national Crime Unit. No mention was however made of the airplane and boat seized. Respondents at the National Assets Commission stated that properties including real estate, stocks and shares, land and vehicles are distributed across the following: the Ministry of Works takes care of houses and buildings, the Ministry of Lands takes care of land and the Ministry of Transport take care of vehicles. However, the National Asset Act (no 2) of 1990 mandates that the Commission shall maintain a register of all national assets emanating from, among other things confiscation.

In light of this, the commission is also mandated to identify and control, maintenance and improve, monitor and dispose of all government properties. It was however discovered that properties are rented out as government quarters and office spaces to public officials who do all repairs and pay rent fees to the consolidated funds. It was noted that the Commission cannot properly manage the assets for lack of funds which are in control of the Secretary to the President. For any renovation required, the secretary to the President is contacted but funds have not been forthcoming. This makes it prudent for properties to be rented out on very reasonable terms.

The police are also not very disposed to managing properties seized from the proceeds of crime, because according to respondents, the vehicles are very luxurious to fit the pocket of the police fund. The findings are that the National Asset Commission cannot fully manage the assets in their care, while the police cannot run or maintenance luxurious vehicles seized from proceeds of crime. The Act however put the commission as a very appropriate institution, only if the court ruling directs that the Asset be confiscated by the state, and not distributed to agencies of the state. It is worth noting that the National Asset Commission has never been put in charge of any assets from the proceeds of money laundering except from confiscated properties from the proceeds of corruption. Media personnel believe that there is no proper management of seized assets, structures are becoming dilapidated and do not benefit the state. They see it as a move to merely deprive the accused.

Although no instance was pointed out, journalists and private legal practitioners believe that political pressure and the police high command have the capacity of influencing asset forfeiture outcomes. They believe that the command structure is weak making it susceptible to pressure from political heavy weights. They also point out issues of abuse of office resulting in manipulation.



Respondents from the police stated that investigations have been carried out across the board including a mix of low and high class people. However, it was noted that no political figure has been charged but statement had been obtained from a minister of government. Explanations are that evidence were weak. Media personnel noted that forfeitures have been done across all levels and the outcome may depend on manipulation from the political class. A media practitioner further pointed out that manipulations have been done to cancel convictions that have resulted in forfeiture, mainly because convicts have formed alliance with the political class.

Seizure investigations have not been instituted with professionalism.

TOCU is fully convinced that the powers used in the seizure of the assets from the proceeds of the 2008 Cocaine case was fully within the provision of the Act which makes powerful provisions.

In order to have strict adherence to the existing laws, the court needs to be capacitated. Investigators need to be motivated in terms of remuneration and other incentive.

#### 2.2.13 VULNERABILITY ANALYSIS

<b>NATIONAL LEVEL INPUTS</b>	<b>RATING</b>
<b>BANKING SECTOR VULNERABILITY</b>	6.8
<b>SECURITIES SECTOR VULNERABILITY</b>	
<b>INSURANCE SECTOR VULNERABILITY</b>	7.62
<b>OTHER FINANCIAL INSTITUTIONS VULNERABILITY</b>	
<b>DNFBP VULNERABILITY</b>	3.2
<b>STR Data Analysis</b>	0.31
<b>Domestic Cooperation</b>	0.8
<b>International Cooperation in Criminal Matters</b>	0.7
<b>Capacity of Financial Crime Investigators</b>	0.4
<b>Integrity of Financial Crime Investigators</b>	0.66
<b>Integrity and Independence of the Judiciary (Financial Crime Prosecutors)</b>	0.45
<b>Integrity and Independence of Asset Forfeiture Investigators</b>	0.6
<b>Identification Infrastructure</b>	0.45
<b>Public Sector / Financial Integrity</b>	0.5

#### 2.2.14 RECOMMENDATIONS

- ❖ Provide training on Financial Crime Investigations and prosecution, forensic Accounting, software analysis, data management and archiving, money laundering and terrorist financing, for financial crime investigators, prosecutors, and focal persons in key relevant institutions.
- ❖ Enact laws for prevailing predicate offences liking human smuggling and cybercrime.
- ❖ Improve supervision over financial institutions, and ensure / enforce compliance with regulations.
- ❖ Develop and adopt strategies to reduce and regulate the uncontrolled informal sector / economy.
- ❖ Government should demonstrate the political will by committing resources to combat money laundering and terrorist financing, and also allocate resources for security coordination especially along border crossing points
- ❖ The Civil Service Commission, in collaboration with the Human Resource Management Office (HRMO) should review the Terms and Conditions of Service of Civil / Public Servants, with the view to adequate cater for their welfare, and create the enabling environment for efficiency and effectiveness.
- ❖ The ACC should re-strategize and conduct systems review to fight corruption in the public sector, especially institutions that are have maintained positions in corruption rankings.

### 2.3 BANKING SECTOR VULNERABILITY

Sierra Leone's financial sector is relatively underdeveloped. By December 2015, the sector comprises thirteen (13) commercial banks with a network of 100 branches across the country. Ten(10) of these banks are foreign owned, one is 100% owned by government (Sierra Leone Commercial Bank Limited), one is 100% privately owned by Sierra Leoneans (Union Trust Bank Limited) and Rokel Commercial Bank which is 51% owned by government and 49% owned by nationals. Other financial institutions include; seventeen (17) community banks, thirty five (35) financial services agencies, two(2) discount houses, 10 insurance companies, 39 licensed foreign exchange bureaus, twelve (12) licensed microfinance institutions including two deposit taking institutions, 1 mortgage company and 1 finance leasing company and a budding stock exchange established in 2007. The community banks operate in provincial towns of the country and provide financial services to these communities. Since 2010, 74% of the banking system's total assets are held by five large banks in the industry and 62% of the banking system's assets are in the hands of foreign controlled banks (own 50% or more of equity). Table ... displays basic statistics of financial institutions regulated by the Bank of Sierra Leone.

Basic Statistics on the Overall Financial Institutions regulated by Bank Sierra Leone

No.	Sub-sector of Financial System	Asset Size (Le'000)	No. of Customers
1	Commercial Banks	5,287,572,602	693,751
2	Community Banks	40,457,131	103,666
3	Financial Services Associations (FSAs)	29,391,872	89,285
4	Discount Houses	11,018,164	2,328
6	Microfinance Institutions	86,620,000	88,666
7	Mortgage Company	167,108,504	3,779
	Totals	5,622,168,273	981,475

Source: Annual Report of respective institutions.

The asset base of the regulated financial institution amounted to Le5.62trillion which is about 70% of the country's GDP in 2015, with a customer base of about one million and approximately 16.12% of the country's population as at December 2015. From the above table, it is evident that the banking sector is the most important sub-sector in the financial sector as it constitutes 94% the asset base of the financial sector.

The sector experienced a sharp rise in the number of foreign banks in 2008. The increased participation of foreign banks in the banking sector has implications for money laundering activities, as money launderers can possibly perpetuate their crimes in jurisdictions of foreign banks and transfer these illegal proceeds to their network in other jurisdiction, thereby increasing cross border risks especially with porous borders and weak institutional systems and processes in the sub-region.

While the increase in the number of banks operating in the sector has undoubtedly led to an increase in transactions occurring in the formal financial sector, informal sector is however relatively large. A World Bank Report stated that as at 2014, 16% of adults in Sierra Leone had a bank account. This suggests that a large volume of transactions are not captured through the formal financial sector, making the sector vulnerable to money laundering.

The banking sector is regulated and supervised by the Central Bank. The instruments used to regulate the sector are the Banking Act 2011, Prudential Guidelines for Commercial Banks 2012, guidelines issued to banks and directives issued from time to time as well as a Schedule of Penalties. Licenses are issued to commercial banks after satisfying strict licensing requirements. The sector operates formally unlike other sectors that operate both formally and informally. The Prudential Guidelines address issues governing the operations of banks. They provide guidance and direction to financial institution relating to provisions in the laws and directives issued.

The community banks are also supervised by the Bank of Sierra Leone using the Other Financial Services Act (OFS) Act, 2001 as well as the Guidelines for Other Deposit-taking Institutions. The responsibility of supervising the community banks are partly ceded to an Apex Bank, which performs a first level supervision and based on the reports submitted to the central bank, the Bank of Sierra Leone does extended examination.

There is reasonable monitoring and surveillance of the banking system by the Bank of Sierra Leone and the Financial Intelligence Unit to check compliance with the laws in the banking systems. On site and off site examinations are carried out on banks regularly. Offsite surveillance is done through submission of returns by banks which are analyzed and the result of the analysis sometimes prompt onsite examination. On site examination of every bank is carried out at least once a year. The operations of FIU were detached from the BSL in 2013 when the Unit moved to its new location. The Table below presents statistics on on-site examinations that were carried out yearly and AML/CFT violations that were detected during the examination process.

<b>YEAR</b>	<b>NUMBER OF EXAMINATION</b>	<b>SUMMARY OF MOST FREQUENT VIOLATIONS</b>
2013	NIL	NIL
2014	1	<ul style="list-style-type: none"> <li>• Inadequate procedure in handling PEPs accounts.</li> <li>• Incomplete documentations in respect of wire transfers.</li> <li>• Inadequate KYC documentation in respect of high risk customers.</li> <li>• Lack of disclosures of beneficial owners to companies accounts etc</li> </ul>
2015	1	<ul style="list-style-type: none"> <li>• Inadequate procedure in handling PEPs accounts.</li> <li>• Incomplete documentations in respect of wire transfers.</li> <li>• Inadequate KYC documentation in respect of high risk customers.</li> <li>• Lack of disclosures of beneficial</li> </ul>

		owners to companies accounts etc
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Source: FIU Annual Bank Examination Reports

After each round of examinations, the report is shared with the respective banks and are given 90 days window to address the aforementioned deficiencies. Banks are however susceptible to threats from money launderers on several fronts. These threats of money laundering in the banking sector include the following:

- The abuse of the banking system by criminals (money launderers & terrorists financiers), and the component threats includes doing business with high risk countries, high risk customers (PEPs and other high risk categories) etc.
- At the very least, the discovery of a bank laundering money for criminals is likely to generate adverse publicity for the bank. A lack of confidence in a banking institution is likely to result in declining business as clients move elsewhere thereby affecting the bank's profitability.
- Banks also face the risk of criminal prosecution for money laundering whether they know the funds are criminally derived or not. The Sierra Leone's
- AML/CFT ACT of 2012, puts the legal onus on banks for reporting suspicious transactions to the FIU.

There are gaps in the country's identity infrastructure, which can potentially compromise efforts to ensure that KYC/CDD requirements are effectively implemented, especially in the banking sector, making it difficult to trace highly risk customers. The Sierra Leone banking sector currently accepts the following documents as a form of identification in the event a person wanting to open an account:

- National I.D cards
- Drivers License

- National Passport
- Voter I.D card

The above documents are used to open account for customers but the Voter ID cards are acceptable for low risk customers such as students residing in Sierra Leone. The Biometric system is helpful to support the identity verification systems of the state, especially to facilitate tax payments and AML/CFT purposes. However, one concern raised about the current identity infrastructure is that they are not linked to each other. Responding to this concern, the government of Sierra Leone has formed the National Civil Registration Authority to address this existing gap. By linking this identity verification system together, it becomes relatively easy to trace individuals in the event of fraud and can potentially minimize the extent of crimes in the financial sector for fear of been of caught.

### **2.3.1 METHODOLOGY**

A questionnaire was designed and circulated to all banks in the country. These questionnaire contained information on all the areas of vulnerability relating to these laws, products and services as mentioned below. Information was also obtained from the central bank's published and unpublished appraisal reports on banks and the banking system. A number of operators in the industry were interviewed including customers of banks and staff. Key members of staff of the National Revenue Authority

(NRA) were interviewed and a couple of their publications accessed and evaluated to come up with opinions. Moral suasion was used by the working group to collect objective information from these institutions and was analyzed. A system of assessment/rating of the data was developed. The analysis was based on discussions and team judgment of facts, information and observable occurrences in the system to make inferences.

In conducting this assessment, premium was placed on identifying the availability of applicable laws that conform to the FATF recommendations and assessing the products and services offered by the sector. The level of availability of relevant rules in the banking system is indicative of the level of potential risk of vulnerability.

The following variables were put into perspective and assessed by the working group:

- Availability of laws and regulations for dealing with AML/CFT issues in the banking system;
- The quality of AML supervision;
- Availability of market pressure to meet AML standards;
- Level of commitment to good corporate governance practices within the banking system;
- The availability of penalties as deterrents for breaches of AML/CFT laws;
- Level of enforcement of AML obligations;
- Risk of bank staff integrity together with their knowledge on AML issues;
- Level and availability of compliance function in the banking system;
- The level of commitment of the management and leadership in the banking system;
- The level and adequacy of policies and procedures;
- The general level of compliance in the banking system as well as compliance to AML/CFT laws;
- The quality of operations in preventing the abuse of banking products for money laundering;
- The level and quality of general ML controls in the banking system and their effectiveness;
  
- The availability of CDD framework comprising the legal, institutional and technical framework to identify and verify the identities and profiles of persons;
- The availability of persons infrastructure for the banking system;
- Availability of independent sources of information regarding ML issues; and



- Level of corporate and trust transparency existing within the banking system.

In a similar manner, the products and services offered by the banking sector were assessed given that ML and TF offenses are likely to be committed through these products. Eleven (11) of the most vulnerable products and services were covered in the assessment, viz., retail deposits, deposits for legal persons, retail credit products, credit products for small and medium enterprises (SMEs), credit product for large size enterprises, wire transfers/small value wire transfers, negotiable instruments, trade finance, correspondent accounts, electronic banking, and payable through accounts.

### **2.3.3 Vulnerability Assessment Analysis**

The Bank of Sierra Leone conducts on-site and off-site surveillance of all commercial banks operating in the country. In accordance with the Banking Act 2011, at least one on-site examination is conducted every year. After the examination of each bank, thereports are issued and follow-up examinations are also conducted to determine whether banks adherence to recommendations of the Central Bank in its examination report submitted to the banks. They are monitored using daily, weekly, monthly and quarterly returns that are submitted to the Bank of Sierra Leone. These returns are appraised and recommendations are made on what corrective actions can be taken at any point in time. However, a concern about the supervisory activities of the BSL is that it has generally not used deterrent sanctions to ensure that commercial banks systematically address deficiencies in their AML/CFT compliance systems, although some administrative actions have been imposed for non-compliance with the AML/CFT requirements. In the absence of dissuasive and effective sanctions to address non-compliance, financial institutions may not be able to develop robust internal control systems to ensure effective monitoring of transactions of clients, which should allow banks to detect deviations of customers' transactions from

their established profiles and can potentially impede the reporting of suspicious transactions to the FIU.

The Financial Intelligence Unit also conducts on-site and off-site monitoring of commercial banks in the country. The FIU receives STRs from commercial banks and these STRs are analyzed, processed and disseminated to law enforcement agencies for appropriate actions. Banks submit daily reports on dealings in foreign currency transactions, weekly Currency Transactions Reports (CTR) and Suspicious Transactions Reports (STR) as and when necessary. However, the level of STRs reported is considerably low, which further reinforces the need to enhance the capacity of staff of financial institution and strengthen AML/CFT examinations to enforce compliance with the requirements. Although there are proposals for joint AML/CFT compliance examinations of financial institutions to be conducted by the BSL and the FIU, these institutions are yet to develop an AML/CFT compliance examination procedure to ensure the effective implementation of the requirements such as KYC/CDD, reporting of STRs and CTRs, record keeping and internal controls. It is therefore clear that there are weaknesses in the AML/CFT monitoring and evaluation programme for financial institutions. The Table below shows statistics of STR and CTR submitted to the FIU for the period 2013-2014.

YEAR	SUSPICIOUS TRANSACTION REPORT (STR)	CURRENCY TRANSACTION REPORT (CTR)
2013	10	100,385
2014	4	87,788
2015	16	137,265
	30	325,438

Source: FIU data from the returns of commercial bank

The presence of a large informal sector and the use of cash transactions, particularly transactions relating to DNFBPs, suggest that the sector is vulnerable to ML and TF offences. There is a greater risk of ML and TF from DNFBPs, as clients dealing in the real estate and casinos, as well as dealers in precious stones and metals and automobiles make large cash transactions outside the banking sector, increasing the risks that illegal proceeds can be readily integrated in the economy without record of its source.

The Bank of Sierra Leone in collaboration with donor partners have implemented the new payment system, which will undoubtedly help address the gaps in the informal sector and associated cash intensiveness as this platform does not allow huge payments by cash over the counter. Any payment above Le50m needs to be done through the swift system. Cash collections are also now done by banks and there has been an increase in the number of ATM installation and POS which has limits on withdrawals. Along these lines, it is important to note the new payment system will minimize the extent to which criminal syndicates can use large cash transactions to launder proceeds of crime.

Despite the vulnerabilities identified above, there have been improvements in the country's AML/CFT regime. The AML/CFT Act 2012 and regulations in force largely conform to FATF recommendations that deals with customer due diligence (Rec-10), records keeping (Rec-11), politically exposed persons(Rec-12), correspondent banking relationship (Rec-13), new technologies (Rec-15) and reliance on third parties (Rec-17) in relation to enhance CDD for unusual and large transactions. There are also laws in relation to wire transfers (Rec-16), internal controls and foreign branches & subsidiaries (Rec-18), high risk countries (Rec-19), reporting of suspicious transaction (Rec-20), tipping-off and confidentiality (Rec-21), powers of supervisors(Rec-27) and establishment of FIU (Rec-29) with regards large cash transaction reporting. The laws also comply significantly to the Basle Core Principles on Banking Supervision (BCPs) that deals with responsibilities, objectives and powers of the supervisory body (BCP-1) independence, accountability, resourcing and legal protection for supervisors (BCP-2), cooperation and collaboration with relevant domestic authorities and foreign supervisors (BCP-3), risk

management process (BCP-15), adequate credit risk management process (BCP-17), and operational risk (BCP-25) etc. and largely to Basel Customer Due Diligence Paper.

Table 3.1 shows summary of assessment on the quality of AML controls in the banking sector base on 13 general input variables with their respective ratings. From

the assessment carried out, the higher the ratings the better the control measures on that input variable (on a scale of 0.1-1.0). Enforcement of AML obligations was rated 0.3 (Low) because since the AML Act was repealed and replaced by the AML/CFT Act,2012 no single conviction has been obtained even when all the laws are in place but are not enforced. AML Laws and Regulations (Preventive measures and supervision) was rated 0.7 (Medium High) because from the assessment it was clearly evident that the country has robust laws in place to combat ML.

**Table 3.1: General Input Variables**

<b>GENERAL INPUT VARIABLES</b>	<b>RATING</b>
Enforcement of AML Obligations	0.3
Availability of Independent Information Sources	0.4
Banks' AML Record Keeping and Monitoring Systems	0.4
Identification Infrastructure	0.7
Bank Staff Knowledge	0.5
Compliance Function	0.5
Corporate and Trust Transparency	0.3
Quality of AML Supervision	0.7
Commitment to Good Corporate Governance	0.6
Availability of Penalties	0.7
Bank Staff Integrity	0.3

AML Laws and Regulations (preventive measures and supervision)	0.7
Market Pressure to Meet AML Standards	0.7

As shown in this table, there are areas that need strengthening in order to mitigate the risks of ML and TF. These variables include enforcement of AML obligations, bank staff integrity, and corporate and trust transparency. Regarding enforcement of AML obligations there is no evidence suggesting that anyone has been convicted for

violating AML obligations although the AML Act does provide for such penalties, and also there is a national money laundering framework with designated Recommendation 30 including the identification, investigation and seizure of proceeds of crime. With respect to Bank staff integrity, there is evidence of fraud by bank staff, most of which is not reported to the regulators (BSL and FIU) for fear of reputational damage and penalties. Some banks have indicated that they are afraid of civil action being taken against them by the dismissed employee should they be found not guilty in a criminal trial. With regards to corporate trust and transparency, majority of the trusts is private, and is required by law to be transparent. Transparency however is limited to the beneficiaries and it is difficult to follow up on their level of transparency considering their private nature. Furthermore, although the information about control and ownership of corporate structures is available at the office of the Registrar of Companies it is difficult to access. This means that more needs to be done by the supervisory bodies in putting measures that are commensurate and dissuasive to the violation of AML laws and regulations by bank staff.

The table 3.2 below show the product assessed and the rating of the risks associated with each specific product. The products were assessed based on the level of vulnerability posed to the banking Sector and the lower the rating on the product the higher the

vulnerability of that product. Example: Electronic Bank product rated 0.4 is more vulnerable than Retail products rated 0.66.

**Table 3.2: Product Vulnerability**

S/N	PRODUCT NAME	RISK(VULNERABILITY) LEVEL
1	Retail product	Medium high (0.66)
2	Deposit of legal persons	Medium high(0.67)
3	Credit product for retail customers	Medium high(0.67)
4	Credit product for large SME's businesses	Medium (0.50)
5	Wire transfers/ small value wire transfers	Medium (0.57)
6	Negotiate instruments	Medium high(0.61)
7	Trade finance	Medium low(0.49)
8	Correspondent Accounts	Medium (0.59)
9	Electronic Banking	Medium low(0.40)
10	Credit product for large size businesses	Medium high(0.63)
11	Payable through accounts	Medium low(0.41)

The Technical Assistant Agency which was created with support from the International Fund for Agricultural Development (IFAD) was transformed to establish the Apex Bank (SL) in 2014, the Bank of Sierra Leone ceded the responsibility of supervising rural and community banks to the Apex Bank. The Apex Bank (SL) Limited is registered under the Sierra Leone Companies Act of 1989 and is subject to the regulation and oversight of the Bank of Sierra Leone (BSL) under the Other Financial Services (OFS) Act.

The Apex Bank (SL) Ltd is required to supervise the RFIs and ensure their growth and sustainability with the following three core service functions:

- Administration of an Agricultural Finance Facility (AFF) and the investment of capital into the CBs by outside shareholders to improve access to rural finance;
- Provision of inspection functions and limited supervisory duties to FSAs and CBs;
- Provision of technical assistance / support (including training).

The Apex bank performs first level supervision of these banks and it is obliged to ensure effective compliance of the banks with AML/CFT requirements. As a measure of fulfilling the AML requirements, the bank has standard account opening form that was approved by the BSL. The BSL periodically reviews the operations of the Apex Bank to determine the quality of supervision of the institutions that it governs. These rural and community banks submit CTRs to the Apex Bank on a regular basis whilst the Apex Bank on other hand reports monthly to BSL based on agreed Memorandum of Understanding (MOU). However, the BSL has not developed proper supervisory guidelines to adequately regulate the Apex Bank. Similarly, the Apex Bank does not effectively enforce the implementation of AML/CFT requirements such as the reporting of CTRs and STRs by Rural Community Banks and financial services associations (FSAs).

The Apex Bank is also confronted with problems relating to staff strength and training. The Table below shows feasible actions that can be taken to address the limitations highlighted in the report particularly to rectify in advance of the next NRA. Taking into consideration the enabling AML/CFT legislation and guidelines to facilitate AML/CFT compliance and the level of enforcement of these requirements, the sector's vulnerability to ML activities was rated medium.

## **2.4 SECURITIES SECTOR VULNERABILITIES**

The securities sector in Sierra Leone is at its infancy with a fledging stock exchange and a money market operated by the Bank of Sierra Leone. The industry has a total asset ranging between US\$45—\$60Million

Key participants in the securities sector include: Bank of Sierra Leone as the issuer on behalf of Government, Primary Dealers- intermediaries (commercial Banks, Insurance companies and Discount Houses), the Sierra Leone Stock Exchange and its Dealing Members (Stock brokers) and investors in the securities (individuals and institutions both local and foreign).The financial securities market facilitate the trading of short and long term financial instruments. This market is divided into two broad categories namely; the Money and Capital markets.

### **2.4.1 THE MONEY MARKET:**

The money market in Sierra Leone deals with short-term (1-day to 365days maturity period) securities predominantly Treasury bills (91-day, 182-day and 365-day) auctioned weekly by the Central Bank of Sierra Leone and Treasury bonds (365-day) auctioned monthly by the Central Bank of Sierra Leone with the associated interest payable quarterly (three months interval). In the money market also include the conventional banking (deposit-taking) activities. It is important to note that, investors in the treasury securities (bills and bonds) do not go directly to the Central Bank rather they invest through the commercial banks and the Discount Houses who are the primary dealers. Private individuals and institutions (foreign or local) can invest in these securities.



**TABLE 1: Selected Discount/Interest Rates/ Yields of the Treasury Securities in Sierra Leone from 3rd Jan. 2013 to 24th April 2014.**

Treasury security type/Issuance dates & Annual Yield (%)	3rd Jan. 2013	28th Mar. 2013	27th June 2013	26TH Sept. 2013	26th Dec. 2013	27th Feb. 2014	24th April 2014
91-day T/Bills	18.98	10.10	6.16	3.36	3.39	3.37	2.44
182-day T/bills	26.10	13.21	7.65	7.05	7.72	7.48	5.41
364-day T/bills	25.60	19.36	8.64	9.38	9.71	9.51	7.57
1-year Treasury Bonds	20.00	10.00	8.00	6.00	6.00	6.00	6.00

Source: Adapted from Bank of Sierra Leone Financial Markets Dept. database (2014)

#### **2.4.2 THE CAPITAL MARKET**

This market involves the trading of medium to long-term (over 1 year) securities. In Sierra Leone the prevailing long-term securities are equities of public and private companies. The trading of long-term securities takes place at primary market level (Initial Public Offers, private placements Rights Issues and bonus offers) facilitated by Issuing Agents/Houses and at Secondary market level facilitated by the Sierra Leone Stock Exchange and an Over-the-counter market provided by licensed and non-licensed stockbrokers.

#### **2.4.3 THE ESTABLISHMENT OF THE SIERRA LEONE STOCK EXCHANGE**

The establishment of a Stock Exchange in Sierra Leone began from the formation of a company, namely “Sierra Leone Stock Exchange Company Limited” by private sector

operators. The Company was incorporated under the Companies' Act Cap 249 of the Laws of Sierra Leone in 2001. The Registered office of this company is at 12 Wilberforce Street Freetown. The purpose of forming the company was to operate a stock exchange in Sierra Leone.

Principal membership of the company includes the two Discount Houses in the country, namely First Discount House Limited and Capital Discount House. Other members include representatives from Commercial Banks, Insurance Companies, National Commission for Privatization, National Social Security and Insurance Trust (NASSIT), corporate bodies and the general public.

From the membership, two sets of committees were independently formed: Stock Exchange Technical Committee (SETC)—the steering committee for facilitating the process of establishing the Exchange and the Governing Council—the Board of Directors of the Stock Exchange. These committees were drawn from a broad spectrum of professions including legal, banking, auditing, insurance and academic professions.

The SETC sought and obtained logistical and technical assistance (especially in drafting the legal framework that will guide the conduct of capital market operations and in preparing the budget for the initial years of operation) from external development donors: Commonwealth Secretariat and First Initiative through the Ministry of Trade.

The Ministry of Finance and Economic Development also provided the SETC with financial support to enhance the process of establishing the Exchange and in providing subvention to fund the day-to-day management of the Exchange.

The Bank of Sierra Leone contributed immensely to this venture in terms of financial, logistical, training, publicity and related supports in a bid to widen and deepen the financial market of Sierra Leone. The Bank also provided in its premises the office space for the Management team and the trading floor of the Exchange and also provided the Exchange with a soft loan/grant of Leibillion to kick-start operations. It is still acting as

the Securities and Exchange Commission (SEC)—the highest regulatory body of a Stock Exchange; playing the roles of supervision and regulation in stock exchange operations until the Securities Bill is enacted into law. In the interim however, some arrangement was made in order for some capital market institutions like the stock exchange to begin operations in the country. This arrangement brings about the amendment of the “Other Financial Services Act 2001” to give the Bank of Sierra Leone the Power to grant licenses and approvals to operators of the Stock Exchange. The Bank of Sierra Leone, after all these developments then granted Licenses to the two Discount Houses (FDHL and CDH) as Licensed Dealing Members and their respective Dealers’ Representative who are the market makers/players. Other players such as Investment Advisers, Issuing Houses,

the Registrars, the Auditing Firms and other players were also subsequently granted licenses.

This marks the finalization of arrangements for the establishment of a Stock Exchange in Sierra Leone setting the grounds for the commencement of the operationalization of the Stock Exchange in Sierra Leone.

The establishment of the Stock Exchange in Sierra Leone was with the clear understanding that it would be supported by the privatization programme of Government at its early stages. Regrettably, since 2009, only one company namely the Rokel Commercial Bank has listed 49% of its shares while 51% remained in Government control under the National Commission for Privatization. No other company has listed and the current government ownership structure of Rokel Commercial Bank has risen to 65%. Government, who should have given its full support to the Exchange in its divestiture drive as well as the secondary market trading of Government’s Long-term securities, has so far not done so.

The government has since October 2015 issued 2-year medium to long term bonds of Le10 billion per month but trading of these securities is limited to primary dealers in the money market. The stock exchange is excluded from trading these securities in the secondary market. The Stock Exchange has therefore continued to rely on government's subvention to fund its operational activities.

It is also worth noting that, in 2013, Rokel Commercial Bank whose shares were the only securities being traded on the Floor of the Stock Exchange made a huge loss of Le99 billion thus rendering the shares no market value. As a result of these developments, there has been no trading of securities on the floor of the Exchange since 2013. Unless and until this situation is corrected and companies such as Rokel Commercial Bank, Sierra Leone Commercial Bank, National Insurance Company slated for privatization are indeed privatized through the Exchange, the Sierra Leone Stock Exchange will continue to face financial challenges which will affect its drive to undertake market activities.

Currently there are two Licensed Dealers; namely First Discount House Limited (FDHL) and Capital Discount House (CDH) who execute on the floor of the Exchange they buy/bid and sell/offer mandates of their clients on a continuous Auction Trading System (CATS). Currently, Rokel Commercial Bank shares are being traded on the Exchange. The Discount Houses also conduct brokerage operations on an Over-The-Counter (OTC) basis in the country.

#### **2.4.4 LEGAL AND SUPERVISORY FRAMEWORK**

As emphasized earlier, there have been no securities laws and regulations. However, a draft Securities Bill is being looked at by the Law Officers Department and now awaiting to be enacted into law. In the interim, the Bank of Sierra Leone is playing the role of

Securities and Exchange Commission (SEC) supervising the securities sector and granting licenses to participants in the sector.

Owing to the inactiveness of the Stock Exchange over the years, the Bank of Sierra Leone has also not been active in providing the Stock Exchange with the requisite supervisory/regulatory framework. The Bank has no specific office and staff to handle capital market issue which is and can be a vulnerability that would attract criminals into the securities market knowing that there are no stringent measures in place.

#### **2.4.5 HIGH THREATS & LOW VULNERABILITIES**

Particularly in the financial securities sector, our investigation shows that, amongst the high threats include the structural risk indicators such as politically exposed persons (PEPS), participants in the sector, cash intensiveness (when business transactions, particularly in securities business, are settled exclusively with cash rather than other forms of money such as credit/debit cards and transfers), products and services, number/frequency/volume and nature of international financial/banking/investment transactions (for instance cross-border transactions in securities through stock exchanges in the West African sub-region), partial legal considerations/arbitrations on reports lodged with AML/CTF institutions and poor customer compliance evaluation/identification mechanism.

Regarding cash intensiveness in the securities market, there have been many billions of Leones collected from their customers in cash by primary dealers to bid for securities at the primary market of securities. This strongly indicates strong source of ML/TF activities.

There may not be rigid application of procedures as well as adequate supervision of transactions in the international securities market and international banking activities as

compared to the domestic securities market and banking activities as a whole. This will create avenues for ML/TF activities.

All these are critical factors posing threats of ML/TF activities in the securities sector

#### 2.4.6 LOW VULNERABILITIES

The group found out that, the vulnerabilities include the steps taken to ensure ML/TF activities are kept at low levels. These vulnerabilities include: efficient/effective/adequate/robust control measures such as AML/CTF Regulations, inspection/monitoring and supervisory mechanisms and resources committed to AML/CTF. The table below highlights the characteristics of the strongest threats and weakest vulnerabilities in the financial securities sector.

**TABLE: HIGH AND LOW ML/TF RISKS IN THE SECURITIES SECTOR**

		HIGH RISK CHARACTERISTICS	LOW RISK CHARACTERISTICS
Services Offered		Money remittance which enables cash or value to be transferred overseas;	Domestic transfers (of cash or value);
		Payment by prepaid cards;	
Nature and Complexity of the Business	Transfer of funds	The initiation or receipt of a remittance transaction by mobile phone;	Cash deposit into a bank account with a financial institution;
		Online money transfer;	
		Customers sending money on the same day to several locations, to the same or different recipients;	
		Large or frequent transfers of money, in particular, a sudden increase in business from an existing customer;	

		HIGH RISK CHARACTERISTICS	LOW RISK CHARACTERISTICS
		Transactions in amounts just below the level needing identity checks by the same customer in a short time;	
		Money sent to or received from areas known to have high levels of criminal activity;	
	Method (s) of settlement	Balancing of accounts through alternative channels such as cash couriers;	Settlement through traditional banking channels;
		Transactions bundled together over weeks or months to combine funds;	
		Settling of accounts through trade rather than transfer; counter-valuation done through under-invoicing or over-invoicing of product flows between import and/or export businesses;	
		Transactions broken down into multiple/ sequential transactions;	
	Customers dealt with	Customers not physically present for identification purposes;	Large volume of business in person-to-person transactions;
No standing account or business relationship with the customer (particularly where there is a high level of business conducted in a transaction);			
High value customers;			

	HIGH RISK CHARACTERISTICS	LOW RISK CHARACTERISTICS
	Customer (s) based in, or conducting transactions in or through, a high-risk country, or a country with known levels of corruption, organized crime, drug production and/or distribution;	
	Uncharacteristic transactions which are not in keeping with a customer's usual transaction activity;	
Methods by which services are delivered to customers	Agency channel (for example by dairies and small businesses);	Whole transaction carried out by one service provider;

The World Bank developed tool (Excel-based templates) to facilitate countries in the process of risk assessment. This template has the following features: It has several fields to enter information such as securities sector institutions, structural risk indicators like size of the sector, turnover, cash intensity, frequency of international transactions, PEPs, and other indicators. In addition to the fields of the structural risk indicators, the template also has fields for the risk control measures. After the risk indicators and control measures, the template has fields which are digitally programmed to provide outcomes/results in percentage terms of the data entered in the fields of risk indicators and control measures. These programmed fields show the institutions' vulnerability levels of HIGH, MEDIUM and LOW for each risk indicator. Each institution in the securities sector corresponds to an outcome in percentage showing the level of vulnerability of such institution.



It is important to note that, the data collected from the financial institutions were inputted in the said template with utility of appropriate commands to produce results. We discovered that, the percentages are averaged to provide a single figure that indicates the level of vulnerability of the entire sector.

In that score, the vulnerability level of the Sierra Leone Securities sector to ML/TF risk indicators for 2013/14 is 57 %. This figure is interpreted as the securities sector has a high potential to attract money laundering and terrorism financing criminals.

The vulnerability level of each financial institution covered in our study is shown in the table below:

**TABLE 3: VULNERABILITY TO ML/TF AFTER TAKING THE CONTROL MEASURES INTO ACCOUNT**

NO.	FINANCIAL INSTITUTION	RATE OF VULNERABILITY (%)
1.	First Discount House Limited	36
2	Capital Discount House	28
3	Sierra Leone Stock Exchange	48
4	Standard Chartered Bank	48
5	Rokel Commercial Bank	67
6	Union Trust Bank	85
7	Sierra Leone Commercial Bank	55
8	United Bank for Africa	61
9	Skye Bank	54
10	Access Bank	51
11	Key Stone	52

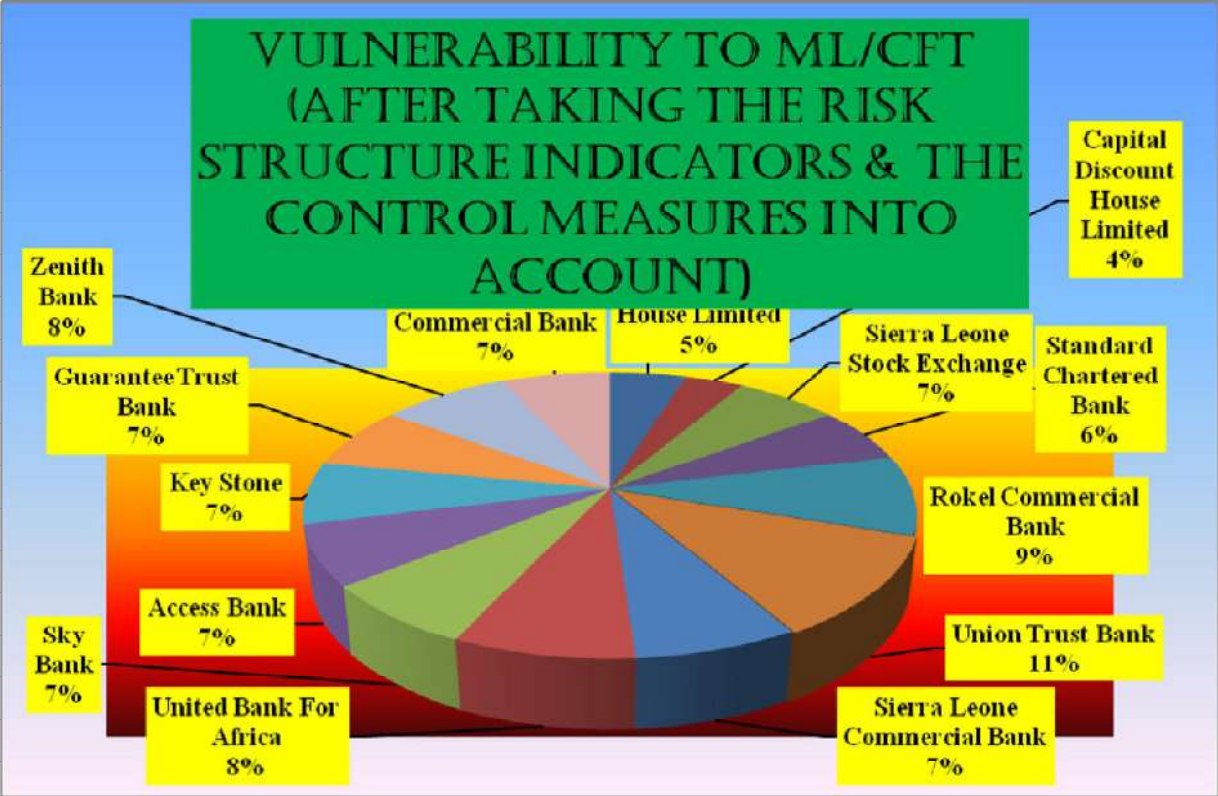
12	Guarantee Trust Bank	53
13	Zenith Bank	60
14	International Commercial Bank	52
	TOTAL	784.333333
	AVERAGE	57

**Source: Group 4 survey 2014**

It can be discerned from the table above that ML/TF risk factors are high in the financial institutions surveyed and that the highest potential for ML/TF risks was found to be Guaranty Trust Bank reported at 70%. Next to GTBank were Standard Chartered Bank, First Discount House, Sierra Leone Commercial Bank and International Commercial Bank each with 58% chance of attracting ML/TF risks. The level of vulnerability was generally high across the securities market as indicated in the table.

The rating of the financial institutions was carried out on the basis of the data obtained from the volumes of foreign security trading transactions by the securities sector institution surveyed.

The pie chart in the appendices section also depicts a similar trend.



**2.5 INSURANCE SECTOR VULNERABILITY**

The total country premium as at 2014 annual report of the insurance regulator (Sierra Leone Insurance Commission) is Le 111.6 billion. Further broken down, Le 86.2 billion is non-life insurance while Le 25.3 billion represents life insurance. The market annual insurance premium is used to determine its size to the GDP. Its contribution to the GDP in 2014 is 0.528%.

As at 2014, there were eleven (11) licensed and registered insurance companies in Sierra Leone, and one (1) Re-insurance Corporation. Seven (7) out of the eleven insurance companies are composite; that is they underwrite both life and non-life insurance products. These companies are: Aureol Insurance Company, Reliance Insurance Trust Corporation; National Insurance Company, International

Insurance Company, Sierra Leone Insurance Company, STACO Insurance Company and ACTIVA Insurance Company.

1. Three (3) Companies, that is Medical and General Insurance Company, Marine and General Insurance Company and Trans-world Insurance Company are underwriting non-life businesses. Capital Assurance Company specializes in underwriting life insurance business but has added Motor Insurance business early January 2015.
2. Aureole Insurance Company, Reliance Insurance Trust Corporation, Trans-world Insurance Company, Medical and General Insurance Company, and Sierra Leone Insurance Company are public and domestic entities.
3. International Insurance Company, STACO Insurance Company, Capital Assurance Company, Marine General Insurance Company and ACTIVA Insurance Company are public and foreign entities (SLICOM REPORT 2014).

The Macro- economic stability in the Country continues to ensure the growth of the insurance industry. The gross premium for both life and non-life Insurance Business increased from Le 76.032 in 2012 to Le91.396 billion in 2013. This represents a yearly average rate of 32%. The non-life business produced a gross premium income of Le72.241 billion in 2013. It is remarkable that there has been a steady growth in both life and non-life sectors for the past years.

Group life insurance policies are not a target for AML/CFT activities because the insurance policy is usually taken by the employer on behalf of the employees, unlike profit single/individual contracts that attract cash value.

For non-life insurance, ML/TF can occur within the context of and, as the motive behind, for example where this results in a claim to be made to recover part of the

invested illegitimate funds. Unfortuitous claims can also be made by bad people to recover funds through their fire or burglary insurance policies. A policy holder might be used as collateral to purchase other financial instruments. These investments in themselves may be merely one part of a sophisticated web of

complex transactions with their origin elsewhere in the financial system. Insurance products identified as prone to ML/TF are:-

Unit-linked or with profit single premium contracts

- Single premium life insurance policy that store cash value
- Endowment policies

All the insurers (insurance companies) do not have an internal AML/ CFT risk assessment on its insurance products and have never conducted any. None of the 11 established insurance companies has a compliance officer on seat.

The Insurance Industry has no experience of money Laundering and Financing of Terrorism activities at the moment which makes it a high risk industry in Sierra Leone.

## **2.6 OTHER FINANCIAL INSTITUTIONS VULNERABILITY**

This assessment focused on two broad sub-sectors, viz., regulated financial institutions and the non-regulated sector, excluding banking, securities and insurance sector institutions. The regulated financial institutions are supervised by the Bank of Sierra Leone, while the non-regulated sector players operate illegally and particularly pose ML risks. The former comprises Consumer Financing and Leasing institutions, Micro Finance Institutions, Community Banks and Remittance Providers, while the latter includes Money Changers, Pawn Brokers and Money Lenders. Each of the above sub-sectors was assessed using questionnaires specifically designed for the formal/regulated subsector, while face to face interviews were conducted with the operators in the informal/unregulated subsectors, in order to determine the level of vulnerability to money laundering and terrorism financing activities.

Consumer Finance and Leasing companies provide hire purchase loans to finance the purchase of various forms of consumer items, such as household appliances, furniture, vehicles and other tangible assets. They also finance mortgage services and extend

credit facilities to individuals and corporations. Finance companies are not allowed to deal in foreign currencies, gold or other precious metals, or to acquire foreign currency denominated stocks, shares or debt securities. At the end of 2014, there was only one (1) finance company operating in Sierra Leone with assets totaling Le 220 million.

Customers of finance companies are more likely to undertake cash transactions than those of banks, given the nature of business transactions, which could increase ML risks. However, due to licensing restrictions on dealing in foreign currencies, the business of finance companies is largely domestic. Cross-board transactions under this sub-sector are not acceptable. Given these restrictions and the limited number of registered entities

operating in this sector with low penetration rate, finance companies are less likely to deal with higher-risk customers than banks. However, as these companies deal mainly with individuals and small businesses, there is the risk of TF arising from small-value and dispersed transactions. Nevertheless, TF risk is low as there have not been cases of such an offense in Sierra Leone and finance companies generally do not undertake cross-border businesses.

Providers of leasing operate under the same license of consumer finance. Leasing is a low-risk sector as well. This is because the business is not developed in Sierra Leone, characterized by cumbersome bureaucratic procedures in accessing this facility to the extent that most high risk customers would undoubtedly not be willing to endure such hurdles. This sector is however not currently monitored for compliance with the provisions of the AML/CFT Act 2012, which increases the risk of ML. In future, on-site examinations should be conducted by the Bank of Sierra Leone and FIU to get more objective picture of ML and TF threats to the economy. Although there are currently no regulations on the prevention of ML and TF in Consumer Finance and Leasing companies, the vulnerability of this sector to ML and TF was assessed to be low.

Community banks are licensed and governed by Other Financial Services Act 2001. These banks may enter into range of banking businesses, including taking deposit, providing cheque services, lending and any other business that is regulated or authorized by Bank of Sierra Leone. They are, however, prohibited from engaging in

non-financial activities. At the end of 2014, there were seventeen (17) local community banks operating in Sierra Leone with asset totaling Le 41.05 billion. These banks account for roughly 44% of the total assets of Other Financial Institutions in Sierra Leone, which totaled Le 94.897 billion as at 31 December 2014. Only fifteen (15) out of the seventeen (17) community banks submit returns to the BSL though not on a regular basis.

Community banks play a significant role in the financial sector and serve a broad spectrum of individual customers, which include higher-risk customers such as Politically Exposed Person (PEPs). The banks also offer high-value private banking facilities, which is a risk factor for ML. Transactions through community banks range in size from small to very high value. These institutions are not effectively monitored for compliance with the AML/CFT Act 2012, particularly on the reporting of CTRs and STRs to the FIU. Community banks have low risk of ML vulnerability even though they offer cash intensive product because the banks have rigorous KYC procedure in place at the point of establishing relationship with these customers thereby making them to have low ML vulnerability. Though they offer cash intensive products but the volume of transaction per customer is low, hence the other reason for low ML vulnerability.

Micro Finance Institutions (MFIs) have a significant role in bridging the gap between the formal financial institutions and the rural poor. These institutions serve a broad customer base, including impoverished communities and other vulnerable groups. The MFIs process a significant volume of local transactions. At the end of 2014, there were Seven (7) registered MFIs and three (3) un-registered MFIs operating in Sierra Leone with asset totalling Le 51.12 billion. While MFIs are supervised by the Apex Bank, they are presently not monitored for compliance with AML/CFT requirements. The MFIs were established under Other Financial Institutions (OFI) Act, 2001 but are still not subjected to AML/CFT compliance by none of the regulatory institutions though there are plans underway by the FIU to subject their operations under AML/CFT regime and monitor their operations for compliance. These institutions offer relatively small number of products to disadvantaged groups that pose low ML and TF risks, though they deal with large number of customers and handle large number of transactions.

Exchange bureaus are in the business of buying or selling foreign currency notes and they are licensed under Other Financial Services Act 2001. As at the end of 2014, there were forty one (41) licensed foreign exchange bureaus operating in the country. Total volume



of transactions in 2014 amounted to Purchases (\$ 91,376,988, GBP 8,799,360 and Euro 72,600) and Sales (\$ 95,870,880, GBP 8,723,148 and Euro 86,620)<sup>2</sup>.

ML risks in this sector are inherently high as foreign exchange bureaus handle large amount of cash transactions and transact mainly with walk-in and one-off customers. Because the bureaus deal with large number of customers (both local and foreign) on a daily basis, it takes the operators relatively short time to complete individual transactions which pose significant challenges in identifying suspicious transactions. This is especially so when transactions can be broken down into multiple transactions of smaller amounts to avoid the thresholds for conducting Customer Due Diligence (CDD) checks, particularly to ascertain the nature of the sources of funds. This is further compounded by the operational challenges associated with foreign exchange bureaus, including inadequacies in the computerization of operations, poor record keeping and management of data on prudential monthly returns submitted to the Bank of Sierra Leone. In other words, spot transactions undertaken by foreign exchange bureau are not adequately disclosed or reported to the BSL. The BSL has not extended its supervisory framework to ensure that foreign exchange bureaus comply with ML / TF requirements such as KYC/CDD, STR reporting and record keeping. While the BSL undertakes both offsite and onsite monitoring of the activities of foreign exchange bureaus, they are not monitored for compliance with AML/CFT requirements. Given these weaknesses in the supervisory framework and the nature of transactions undertaken by bureaus, there is therefore elevated risk of ML and TF activities. However, the FIU in collaboration with BSL has engaged the foreign exchange bureaus in a bid of subjecting their operations under AML/CFT obligations. The engagement is currently at the last stage of rolling out reporting template for

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<sup>2</sup> Bank of Sierra Leone- 2014 report on operations of licensed Foreign Exchange Bureaus

AML/CFT purposes. The FIU and BSL have also agreed to work closely in ensuring that foreign exchange bureaus fulfill AML/CFT obligations before licenses are issued out and punitive sanctions for existing once that will flout any guideline.

Money changing business is the business of buying or selling foreign currency notes. ML risk in this sector is inherently high as money changers undertake large cash transactions with no documentation to ascertain the nature and purpose of such transactions. There is currently no designated supervisory authority for money changers in Sierra Leone, which makes it difficult to ascertain the volume of transactions undertaken by these operators. The Bank of Sierra Leone and the FIU, as well as law enforcement agencies have very little information about these individuals or groups. As they deal in foreign currencies, money changers provide foreign exchange to finance cross-border transactions especially in Guinea and Liberia. There is no legislation criminalizing these activities, which suggests that money changers are at risk of being used to perpetrate ML and TF offenses. In 2014, the Bank of Sierra Leone initiated a policy to encourage money changers into the formal financial sector and ensure that these activities are also subject to AML/CFT requirements. The BSL registered two (2) groups of money changers in Freetown and the regulation process is still in its pilot stage. Since that engagement in 2014 with money changers no developments have been made as the money changers complaint of high standards set by the BSL to regulate them which they cannot meet. In the bid of promoting financial inclusion, the BSL has even tried to ignore some of the requirements but their efforts in getting the money changers on the drawing board to discuss again has proved futile. As a strategy to strengthen the effort made by BSL in 2014, the FIU have agreed to collaborate with BSL to work with the money changers so as to bring their operations under ML/TF obligations.

Remittance providers accept funds for the purpose of transmitting them to persons resident in another country or territory outside Sierra Leone, and are licensed under Other Financial Services Act 2001. At the end of 2014, there was one (Afro International) remittance provider regulated and supervised by the BSL. Total outward remittance and

inward remittance volumes for 2014 were unknown due to inadequate data and information about the activities of the business within the economy of Sierra Leone. The BSL estimates that 95% of foreign currencies bought and sold by all foreign exchange bureaus were undertaken by Afro International.

Remittance license typically caters to customers such as individuals, foreign workers, expatriate professionals and small and medium enterprises. The channels used for the remittance of funds to beneficiaries overseas include local and foreign banks, other licensed remittance agents in Sierra Leone, and informal networks such as overseas agents. Beneficiaries generally receive their funds via door-to-door cash delivery, direct credits to their bank accounts or self-collection of the funds at designated outlets. Customers usually settle their transactions in cash. The cash intensive nature of remittance transactions and the industry's ability to process large number of transactions cheaply and speedily attract potential money launderers to use remittance agents to move illicit funds. Cross-border fund flows also bring about a greater risk of illicit funds being introduced into the financial system. Remittance providers receive large inflows of foreign currencies and simultaneously transfer funds abroad, either through the banking system or other agents, which suggests that remittance agents could be the hub for money launderers and terrorist financiers in Sierra Leone.

Pawnbrokers cater for individuals who need short-term financial relief and possess valuables that can be pledged e.g. jewellery and luxury watches etc. The assets pledged can be redeemed anytime within the redemption period (which must be at least six months). Interest rates varied per month. This industry is un-regulated and found within the informal sector of the economy and there is no accurate data or information on the size of these transactions. To subject the operations of Pawnbrokers under AML/CFT compliance, the two regulatory institutions (BSL and FIU) first need to identify those engaged in that business. The second stage is to engage the operators and help them understand the benefits they stand to gain and how it will also help the country. The final

stage of the process is to rollout reporting template to the operators for regular monitoring.

Transactions in this sub-sector are mainly cash-based. From both ML and TF perspectives, the industry poses two key concerns:

- i. Pawnors repay debts using illicit monies; and
- ii. Pawnors pawning fraudulently-obtained pledges and leaving them unredeemed.

Gold items are of special concern because they constitute about 50% of all pledges. Majority of the customers are locals; with foreigners constituting 1% to 3% of all Pawnors. Sellers and buyers trading in gold might both face risk as a result of fragility of gold thereby causing loss for either the buyer or the seller. Hence, the risks of foreign terrorists actually involving in these activities are moderate or low. Furthermore, a terrorist looking to monetize an asset is more likely to sell it, rather than pawn it.

The money lending sub-sector provides financial relief to individuals who can neither obtain credit from banks nor offer many valuables to pawnbrokers. The vast majority of loans are unsecured. This industry in Sierra Leone is un-regulated and found within the informal sector of the economy. This sub-sector is not regulated so it is difficult to determine the size and extent of transactions undertaken by the parties.

Transactions are cash-intensive which raises potential ML concerns. However, there are low lending limits and the average loan value is less than Le 50 million, so money lending industry is only moderately attractive as a channel for ML. Nonetheless, unlicensed money lending is a significant ML threat in Sierra Leone because the borrowers may not use the money for the intended purpose. The sub-sector implicitly regulates itself in the absence of a supervisory body, as lending limits are set by themselves and have been commonly accepted.

Base on the assessed vulnerabilities and threats, the overall ML/TF risk rating for each sub-sector is tabulated below:

S/N	SUB-SECTOR'S NAME	ML/TF RISK(VULNERABILITY) LEVEL
1	Foreign Exchange Bureau	High (1.88)
2	Remittance Providers	High(1.78)
3	Money Changers	Medium high(1.33)
4	Micro Finance Institutions	Medium Low(0.72)
5	Community Banks	Medium Low (0.68)
6	Money Lenders	Medium (0.61)
7	Pawnbrokers	Low(0.32)
8	Consumer Financing and Leasing	Low(0.30)

## **2.7 DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS VULNERABILITY**

The Designated Non-Financial Businesses and Professions (DNFBPs) are defined in Schedule II of the AML/CFT Act 2012, which comprises the following sub-sectors:

1. Casinos (which also include internet casinos)
2. Real estate agents
3. Dealers in precious metals/stones
- 4 Legal practitioners,
- 5 Notaries, other independent legal professionals
- 6 Accountants

This list is however not exhaustive and should be expanded to include related activities, especially those of car dealers, such as Clearing and Forwarding Agencies, Shipping Companies and Agencies and Not-for Profit Organisations (NPOs). The assessment particularly looked at Diamond dealers, Car dealers, Accountants and independent Lawyers in Freetown. Given the large volume of monetary transactions involved and its significant impact on the national economy, this sector poses a high risk level of ML and TF activities. There are structural weaknesses in these sub-sectors and the absence of adequate AML/CFT control measures means that ill-gotten funds are channelled through this sector.

The assessment of the DNFBPs was faced with a number of limitations and challenges. Due to the Ebola outbreak throughout the country, questionnaires were distributed but not collected from different DNFBPs because of the imposition of travel restrictions. The existence of such information gap is a concern given that the FIU cannot assess the environment in which these players operate. It poses a challenge to the Unit in trying to map out the level of vulnerability of the sector in order to determine the adequacy of

AML/CFT control measures needed. The DNFBPs affected by this problem include the following:

- Casinos.
- Registered diamond dealers at the diamond mining areas, (small and medium scale local diamond and gold dealers).
- The Real Estate Construction companies and Estate Agencies-to-let.
- Non-Governmental Organizations (NGOs), including Not-for Profit Organisation and Community Based Organization.

#### **2.7.1 DEALERS IN PRECIOUS MINERALS**

There are three key players within the precious minerals sector especially for diamonds and gold. They include:

1. Miners engaged in artisanal, small scale or industrial mining
2. Dealers or agents buying precious minerals only from artisanal or small scale mining lease holder and selling to exporters.
3. Exporters who buy precious minerals from dealers or dealers' agents and export such minerals.

Illicit mining was a major source of finance for Sierra Leone's rebel forces known as the Revolutionary United Front (RUF) in sustaining and advancing its military ambitions. The illicit funds helped fuelled the civil conflict which lasted for eleven years from 1991-2002. According to a report of the panel of experts appointed pursuant to UN security Council Resolution 1306 (2000), the estimates of the volume of RUF diamonds vary widely, from as little as \$25 million per annum to as much as \$125 million. In order to better regulate the sector, a global certification was

established in 2003, known as the Kimberley Process Certification Scheme (KPCS). The KPCS is a joint governments, industry and civil society initiative established to stem the flow of conflict diamonds – rough diamonds used by rebel movements to finance wars against legitimate governments. The international legal framework for KPCS was established by the United Nations General Assembly Resolution 55/56 following recommendations in the Fowler Report.

The revised Mines and Minerals Act 2009 and the National Minerals Agency Act, 2012 provide the legal framework for the regulation of the sector. The National Minerals Agency (NMA) has responsibility for processing licenses applications, monitoring compliance, and oversees exploration and mining activities. Sierra Leone also acceded to the Extractive Industry Transparency Initiative(EITI) status on 22nd February 2008 and established the Sierra Leone EITI Steering Committee, the Sierra Leone Extractive Industry Initiative (SLEITI) which is a Multi Stakeholder Group (MSG) made of mining companies, government agencies and civil society including the media. The EITI initiative is geared towards promoting greater transparency in the extractive industry with the view to addressing resource governance challenges and maximization of revenues and benefits for the citizenry.

Notwithstanding the recent strides in reforming the industry and the process of vetting mining customers through the KPCS regime, the NMA has not implemented measures to counter ML/TF risks in the diamond trade in Sierra Leone. There remain key challenges to overcome such as strengthening the capacity of the NMA in addressing the issue of smuggling, wide spread corruption and illicit activities in the sector. The publication of the Panama Papers brought to the fore serious flaws in the trade. The data leak from Mossack Fonseca confirms a secretive financial structure connecting Koidu Holdings and Ocea to wholly-owned Steinmetz entities in Liechtenstein, the British Virgin Islands and Switzerland. Incomplete diamond export data, obtained by the African Network of Centers for Investigative Reporting, show that during some months in 2012 to 2015, Ocea exported more than \$330 million in rough diamonds. Yet, although Ocea's rough



diamonds average \$350 per carat, the company is alleged to be more than \$150 million in the red.

While the NMA oversees the operations of mining companies, it is becoming increasingly clear that these companies are largely self-regulated, reporting their own exports in terms of volume and values. This increases the risks of ML and TF being perpetrated in the country. The vulnerability of the mining sector to ML and TF is particularly reflected in specific features of this sub-sector:

- The trade in precious minerals is still largely informal and done outside the regulated financial institutions.
- The vast fields of alluvial mining remain poorly supervised and regulated, which continue to create opportunity for illegal mining activities to thrive.
- Poor record keeping and corruption are major impediments in getting the sector to operate in line with international regulation. The gate keepers and enforcement bodies are easily compromised.
- The lack of harmonization of the fees and precious minerals trading taxes across the region, contributing to widespread smuggling and related money laundering.
- The absence of AML/CFT obligation for players within the industry means that most obviously suspicious activities will go undetected and never investigated.
- Low capacity within the NMA and law enforcement institutions on AML/CFT issues is a serious drawback to effective supervision and enforcement of applicable standards and regulations.
- The complexity of the preciousminerals trade and difficulties in regulating the trade globally poses threats to producing countries like Sierra Leone.
- The financial influence of the unscrupulous players in the diamond industry makes it a difficult sector to handle

- The growth of information technology means that trading can be done remotely by phone or e-mail between miners/dealers or exporters with outside investors without any trace of such transactions.

Registered diamond dealers were assessed to be **highly vulnerable to ML and TF, with a rating of 0.90 (1.00)**. Such a risk assessment was specifically based on the following parameters:

- Inadequate resources committed for the AML/CFT compliance program in collaboration with the diamond mining regulators to incorporate the provisions of the AML/CFT Act, 2012.
- There are currently no money laundering and financing of terrorism guidelines in place to guide the diamond dealers and agents on issues of money laundering and terrorist financing in the diamond industry in Sierra Leone.
- Dealing in rough diamond products is largely cash-based, which are in high demand from non-residents and domestic diamond Agents. Artisan small scale diamonds are also on cash payment terms at the purchase and selling point in the mining areas.
- Eighty percent (80%) of high risk customers are non-residents, whose diamond dealing transactions can be extremely difficult to identify and verify the source(s) of funds used to purchasing and sell diamond products, as well as in the twenty percent (20%) domestic diamond trading market. Ninety-three percent (93%) of the exported diamonds on a monthly basis are for international customers, and 7% diamond dealings consummated through the domestic market.
- In the absence of ML and TF regulations, STRs are not reported to the FIU

Given the elevated risk of ML and TF, it is absolutely imperative for the FIU in its capacity as the responsible supervisory authority to concretely work with the Ministry of Mines and Mineral Resources (MMMR) and the National

Mineral Agency(NMA) to appropriate measures to ensure compliance with the AML/CFT requirements, including the following:

(i) Identify appropriate supervisory body to design and implement adequate AML/CFT controls applicable to diamond sector;

(ii) Identify the responsible FIU person to coordinate the design and implementation of AML/CFT controls in diamond sector

(iii) Develop and implement AML/CFT regulations, guidelines and robust reporting measures for dealers in precious minerals, in particular to that of informal diamond trading transactions conducted in the mining areas.

(ii) Effective and efficient recordkeeping on alluvial mining players should be maintained, so to facilitate audit trail on their diamond mining and trading activities/transactions.

(iii) Develop and implement electronic system that facilitates data sharing on the trading activities of dealers in precious minerals between the Financial Intelligence Unit (FIU) and National Mineral Agency. This will ensure that formal/informal transactions can be monitored regularly and the relevant reports are filed to the FIU.

(iv) FIU/NMA to have a formal engagement with the registered diamond dealers, exporters and miners to enhance AML/CFT reporting requirements( time line: immediately 2017)

(v) The FIU, National Mineral Agency(NMA), Corporate Affairs Commission(CAC) and Administrator and Register General (OARG)to get a round table major stakeholders discussions on the definition of beneficiary Ownership

and inclusion of the beneficiary owners on the forms of registration of companies ( Time line: effective implementation 2017

- (vi) Enhance domestic coordination and collaboration between the FIU and NMA's Mines Monitoring Officers (MMO) with the responsibility to provide effective monitoring and reporting on the diamond dealings/trafficking activities at the border-crossing points( Timeline: effective implementation 2017)
- (vii) Provide comprehensive training of the MMO/ Miners Wardens(MW) so to oversee adoption and implementation of the AML/CFT requirements. ( Timeline: effective implementation 2017)
- (viii) The MMO/Miners Warden salary should be reviewed so as not to undermine its capacity to play its monitoring and reporting role.( Timeline: immediate effect, 2017)

### **2.7.2 CAR DEALERS**

The assessment on the vulnerability of Car dealers to ML and TF provides broad insight into the structural risks inherent in the sector and whether there are any AML/CFT control mechanisms in place to mitigate the risks of ML and TF. The Car dealers in Sierra Leone are exposed to a very high level of risks to ML and TF. In spite of their inclusion as DNFBPs in the second schedule of the AML/CFT Act 2012, there are no AML/CFT regulations that govern the operations of car dealers' activities to counter ML/TF risks. Membership of the Motor Vehicle Association is voluntary. The sector is a self-regulatory organization through an established 'Motor Vehicle Dealers Association' of which only 30% are members of the association, and seventy percent (70%) of the Car dealers do not belong to any Association/regulatory body to monitor their business activities. This makes it extremely difficult to track their business transactions in Sierra Leone. Car

dealing is complex in nature, involving the buying and selling of high value brand named cars, such as Audi Q7, Toyota cars and pick-up trucks, Honda, Kia, Hyundai, Range Rover, Mercedes and Volkswagen jeeps, as well as heavy commercial vehicles. The fact that the car dealer sector is unregulated makes exportation of new or used cars and commercial vehicles appealing to criminals, who seek to move, conceal and store the proceeds of crime through the car dealer business activities.

There are external threats to ML and TF posed by the car dealers' business activities. These external threats include the following:

- Acquisition of high value new or used cars at point of entry in Sierra Leone can be difficult to identify and verify the cross-border source of acquiring these cars.
- Used cars or vehicles can be easily bought outside and shipped to Sierra Leone or cross-border arrangement without going through the formal acquisition processes.
- Used cars or minibuses and heavy-duty vehicles can be paid for in foreign currency (USD) instead of local currency (Leone), so the money launderers use high end used cars to acquire other goods such as, arms/guns, and most commonly drugs, and also to finance other criminal activities.
- Lots of high end used cars at international level which are at discount value which can be shipped or driven across-borders to Sierra Leone. etc.

The sector is particularly vulnerable to money laundering, which is particularly reflected in its specific features:

- Car dealer entities are self-regulatory which made it sufficiently difficult to track their business transactions.
- Car dealers are in desperate effort to conceal the amount of money received for the sale of their cars or vehicles to customers.
- No reporting mechanism in place for their business activities, in particular to the Financial Intelligence Unit (FIU), so to monitor their nature of business, source (s)

of cars, or heavy vehicles, location of car dealers and the range of price-tag on their imported or cross-border cars.

- There is greater likelihood of drugs dealers and other criminals to disguise or convert their ill-gotten proceeds of crime to pay cash for specific high value used or new cars without detecting the true source of funds or wealth.
- Inherently the business activities of the regulated car dealers sector pose money laundering and terrorist financing risk, as customer will seek to misuse car dealer services in Sierra Leone.
  
- Used cars or vehicles can be easily bought outside and shipped to Sierra Leone or cross-border arrangement without going through the formal acquisition of used or new cars/vehicles.
  
- Lots of high end used cars at International level which are at discount value, and can be shipped across-borders to Sierra Leone.

The sector is not effectively regulated and supervised for compliance with AML/CFT requirements. An appropriate supervisory authority it yet to be appointed to oversee the design and implementation of appropriate AML/CFT controls in the sector. Overall, the sector is rated as highly vulnerable to ML and TF with a rating of 0.9 (1.0), which represents a **‘Very high’ ML/FT risks** in the business activities of the sector.

1. To facilitate effective implementation of the AML/CFT requirements, the FIU should engage with car dealer players to sensitize them on the risks exposed to money laundering and terrorist financing in the sector. This will pave the way for more meaningful discussions for informed decision making to ensure members comply with the AML/CFT Act 2012.
- ii. The FIU should spearhead efforts so that an appropriate supervisory body is established to enforce AML/CFT regulations, directives and appropriate control measures are put in place to supervise and monitor the new/used car dealers’

activities, and ensure that car dealer membership to its Association should be mandatory for all car dealers in the country.

- iii. The regulatory agency or supervisory authority will ensure the channels of imported cars in the country and transactions are monitored regularly and statistics maintained to facilitate the reporting of suspicious transactions to the FIU.
- iv. To amend the AML/CFT Part 11 of Second Schedule, so to bring car dealers to become a reporting entities, related Deasignated Non-Financial Businesses and Professions(DNFBPs)(Time Line: immediate effect 2017)
- v. FIU to be made temporary body supervising car dealers with immediate effect; 2017.

### **2.7.3 LEGAL PROFESSIONALS/LAWYERS**

In the Mutual Evaluation Report for 2007, there were around 150 private legal practitioners in Sierra Leone. This risk assessment revealed that the number has increased to about 350 practicing Lawyers/ majority of which are private practitioners. The legal professionals, (whether employed in companies or private lawyers) are regulated by the General Legal Council (GLC) and the Legal Practitioners Act, 2000. The lawyers in Sierra Leone are subjected to a Code of Conduct Statutory Instrument

2010. This code of conduct regulates ethical standards of individual lawyers and provides sanctions for breach of its provisions.

In addition, the Sierra Leone Bar Association (SLBA) is the professional body of lawyers acting as a pressure group for the welfare of lawyers. Some of the services provided by lawyers to clients include the following business activities: buying and selling of real estate, managing client accounts, creation of trust and companies, management of trust and companies, setting up and managing charities.

These business activities can easily attract large cash transactions which normally do not go through comprehensive due diligence and on-going monitoring of the source of funds/wealth of the clients. Though they are not usually aware of the intension of criminals when their services are sought, the involvement of Lawyers may assist the laundering of the proceeds of crime and funding of terrorism. Therefore, the services of a legal professional may become vulnerable to ML/TF risks considering the services they provide to individual clients, yet the services pose external threats to money laundering activities when clients seek to misuse the legal professional's services in the sector. These external threats include:

- The legal professionals globally are vulnerable for ML/TF risks in light of the specific legal services they provide, not limited to services provided by lawyers in Sierra Leone;
- Criminals seek out the involvement of lawyers/legal professionals in their ML/TF activities, where the legal professional is required to complete certain transactions which could assist the laundering of the proceeds of crime and funding terrorist activities; and
- Different numbers of ML/TF methods that commonly require the services of a legal professional, inherently these activities pose ML/TF risk when client seeks to misuse the legal professional's services in various business transactions.

There are also internal vulnerabilities that pose extensive threats to money laundering activities when clients seek the services of lawyers in Sierra Leone:

- The sector is very attractive for facilitating cash based transactions such as purchase of real estate and other properties, transfer of wealth and other valuables, investment and setting up of companies/businesses;



- The sector is yet to be fully brought under AML/CFT regulation. This means that issues such as customer due diligence (CDD)<sup>3</sup> will remain weak until AML/CFT standards are rolled out to the sector and are regulated and supervised for that purpose;
- The profession is not effectively supervised and regulated for AML/CFT purpose by the General Legal Council;
- The source of funds or wealth from clients in acquiring properties can be difficult to identify and verify complex or unusually large transactions within the sector;
- The AML/CFT Act, 2012 requirements not incorporated to the Code of Conduct Statutory Instrument 2010, which regulates ethical standards of individual Lawyers and provides sanctions for breach of its provisions;
- Lawyers' client transactions not readily made available to monitor their business activities or transactions;
- Lack of awareness and client education to ML and TF increases the vulnerability of the legal professionals within which clients seeking to misuse legitimate legal services to further their money laundering activities; and
- The General Legal Council (GLC) and the Legal Practitioners Act, 2000, have not put in place anti- money laundering and terrorist financing measures as such the ML/TF risk level is high for those seeking to misuse the services of Lawyers in Sierra Leone.

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<sup>3</sup>CDD includes identifying and verifying the identity of the client, beneficial owners where relevant, understanding the nature and purpose of the business relationship (including the source of funds). Records of the CDD material must be maintained.

- Engaging a lawyer adds responsibilities and a veil of legitimacy to any activity being undertaken. Criminals concerned about their activities appearing illegitimate will seek the involvement of a Lawyer as a stamp of approval.
- The services that Lawyers provide, for example, setting up companies and trust, or carrying out conveyance procedures are methods that criminals can use to facilitate money laundering.
- Lawyers handle client money in many jurisdictions- this means that they are capable even unwittingly of cleansing dirty money by simply putting it into their client account.
- Sierra Leone attractiveness to new investment will make legal professionals a convenient conduit for such investments and hence it exposure to the threat been used by unscrupulous investors

In spite of the General Legal Council regulatory provisions and its Code of Conduct for lawyers in Sierra Leone, yet the absence of enforceable regulatory framework for lawyers in Sierra Leone is a significant vulnerability, thereby causing a greater risk of ML/FT. Lawyers undertake services on behalf of their clients and it is important that these professionals are adequately sensitized on AML/CFT compliance in the conduct of their businesses. However, there is lack of enforcement of AML/CFT controls by the Bar Association. Along these lines, this assessment revealed **a very high vulnerability of legal profession to ML and TF due to the services they provide to clients/customers, with a score of 0.7**. Nonetheless, the recent engagement with lawyers by the FIU at its last Bar Association Conference and the proposed guidelines drafted by the FIU is a welcome development to raise awareness of AML/CFT risk lawyers may be exposed to.

It is important that appropriate actions be taken to ensure that AML/CFT requirements are extended to these professions, including the following:

- (i) The General Legal Council and the Sierra Leone Bar Association should incorporate the provisions of the AML/CFT requirement into its Code of Conduct for Lawyers, so to guide them on the risks exposed to money laundering and terrorist financing in the sector.
- (ii) The Financial Intelligence Unit (FIU) should provide guidelines for the practicing Lawyers to ensure compliance with the AML/CFT reporting requirements on the source(s) of funds of clients seeking to misuse legitimate legal services to further their money laundering activities.
- iii. The FIU to engage the General Legal Council on their comments in response to their AML/CFT guidelines; ( Time lime: immediate effect, 2017)
- (iii) There should be regular monitoring of the source of funds for providing legal service for clients to ensure compliance with the AML/CFT regulations and guidelines.
- (iv) The General Legal Council and the Sierra Leone Bar Association should enforce compliance with the AML/CFT requirements, maintain statistics to facilitate reporting of STRs to the FIU as well as on the results of compliance inspections.

#### **2.7.4 ACCOUNTANTS/AUDITORS**

Accountants/Auditors are regulated by the Institute of Chartered Accountants of Sierra Leone (ICASL). The powers of ICASL as a self-regulatory body are contained in the Institute of Chartered Accountants of Sierra Leone (ICASL) Act, 1988. The said act provides for the establishment of a Council with powers to make regulations that govern the conducts of members. As at September 2013, the Institute register, boast of 66

Associates, 77 Fellows and 15 practicing Firms. They serve a nation of six million people in one of Africa's largest growing economies. ICASL has a Council for Standards of Accounting, Auditing, Corporate and Institutional Governance (CSAAG). The council is mandated to enforce regulation of professional standards and discipline.

The Auditing firms in Sierra Leone provide accounting services for clients in three practice areas:

- i. Audit-(financial statement audit, statutory audit, audit-related services)
- ii. Taxation-(corporate tax, business tax, indirect tax, and personal tax)
- iii. Advisory on-(financial risk management, corporate finance, restructuring, transaction services, accounting advisory services, informational technology advisory, business performance services and internal audit services for domestic and multinational/NGOs, and corporate entities, including financial institutions.

The sector is exposed to high risks to money laundering and terrorist financing, during the course of providing accounting and auditing service to corporate entities, as well as Small, Medium Enterprises (SMEs) in Sierra Leone. The identified vulnerabilities for the sector are as following:

- No AML/CFT guidelines for the Accountancy/Auditor sector in Sierra Leone.
- Lack of ML/TF awareness to educate the Accountants and Auditors, as well as the businesses undertaking the services provided by the Accountancy/Audit firms.
- Most accountancy services to small and medium size businesses can be difficult to scrutinize their complex and unusual business transactions.
- There are no AML/CFT requirements incorporated into the standards and principles of good practice of Accountants/Auditors in Sierra Leone

- . Accordingly, there is lack of AML/CFT monitoring and supervision of the sector, which poses an AML/CFT risk on the broad frame of accounting/Auditing services provided to corporate entities, small and medium size businesses and NGOs, respectively.
- No reporting mechanism in place by the accounting firms on the service provided to corporate entities, and the small and medium size businesses that underpinned risk issues on ML and TF activities through business activities in Sierra Leone.

In light of these deficiencies, the accountancy sector was rated as having **very high vulnerability to ML and TF with a score of 0.7**. There are, however, specific measures that could facilitate the adoption of AML/CFT requirements by Accountants:

(i) The FIU in collaboration with the Institute of Chartered Accountants of Sierra Leone should sensitize Accountants and Auditors on the AML/CFT requirements. This will ensure that guidelines are put in place, and to come up with a system that ensures the accounting/auditing services provided to small and medium size enterprises are monitored and the required reports are filed to the FIU.

(ii) Adequate resources should be provided to ensure effective and efficient monitoring of accounting and auditing service provided to private corporate entities, as well as small and medium size enterprises in the country.

(iii) Practicing Accountants/Auditors should be specifically trained on AML/CFT reporting requirements, so as to aid them on the indicators of money laundering and terrorist financing activities in the corporate entities, and other businesses entities.

(iv) The total number of businesses engaged in accounting, auditing activities and bookkeeping should be updated and filed to the FIU this is to ensure that data for accounting and auditing activities are collected in a systematic manner, so as to capture data on accountants or auditors involved in the commission of money laundering activities.

It would be useful for data to be collected for future NRAs, and appropriate system for collecting the required data on a regular basis:

- List of qualified accountants/auditors that provide accounting and auditing services to corporate entities and small and medium size enterprises. The Institute of Chartered Accountants in Sierra Leone is mandated to provide such information, as when required by Law Enforcement Agencies, in particular, Financial Intelligence Unit (FIU).
- Recordkeeping Data:- Accountants/Auditors' business transactions provide on behalf of Small and Medium size Enterprises and Corporate entities. The ICASL should collect and analyse the financial
- data, then provide the information, as when required by the Law enforcement Agencies/FIU
- ICASL Accountants and Auditors are reporting entities as required under AML/CFT requirements, as a result of this ICASL will come up with a reporting system that will collect accounting data, analyzed and file reports to the FIU, as and when required.

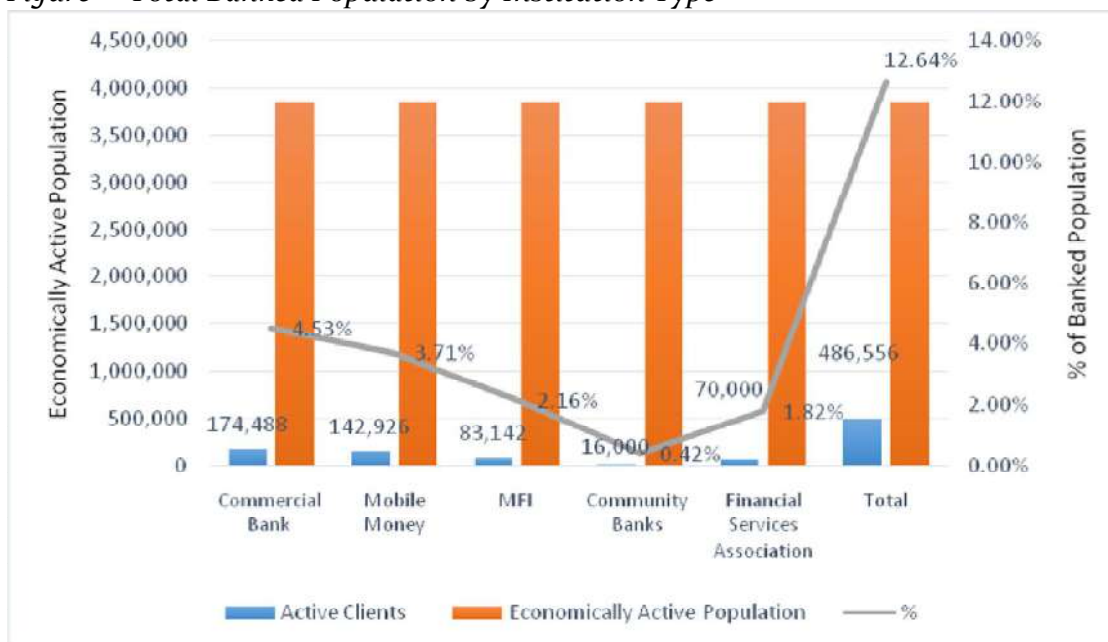
## 2.8 FINANCIAL INCLUSION ASSESSMENT

Financial inclusion is a process of bringing the unbanked into the formal financial services at affordable cost to a range of financial services, including savings, short and long term credit, mortgages, insurance, payments, local money transfers and international remittances. These financial services are made available by regulated institutions subject to AML/CFT standards.

### 1.1. Access to Financial Services and Products

Sierra Leone has 13 commercial banks, 17 community banks, 13 (2 licensed and 11 registered) microfinance institutions (MFIs), three mobile money operators, and 59 financial services association (FSA) who together serve 486,556 clients across the country. This represents only 12.64% of the economically active population of 3.8 million people<sup>4</sup>.

Figure – Total Banked Population by Institution Type



Source : Financial Inclusion Strategy document (BSL, 20...)

<sup>4</sup>Economically Active Population are those within the age group of 15-64 and represent 54.4% of the population as per Sierra Leone Census Report 2015

This assessment is intended to identify and assess various financial inclusion products in the country to ascertain their risk in terms of ML and TF. It is therefore helpful for regulators as well as market players to redesign the product features and introduce mitigation measures depending on the results of the risk assessment.

The FATF has repeatedly emphasized that applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the financial system. Ineffective regulation or controls may enable money launderers and terrorist financiers to ply their trade, but AML/CFT controls should not inhibit access to formal financial services for low-income, rural, undocumented, or other financially excluded and underserved groups. In other words, all products and services aimed at improving financial inclusion should be assessed to avoid unnecessarily strict AML/CFT controls on products/services where risks may be lower, while ensuring that the AML/CFT controls effectively mitigate the actual risk. Along these lines, the adoption of a risk-based approach will ensure adequate supervision of financial institutions and other providers of financial inclusion products on AML/CFT requirements. Such an approach to AML/CFT implementation requires that low risk products and services are assessed and identified to allow commensurate AML/CFT requirements for those classes of products and services,

hence creating regulatory space for increasing access to financial services to the unbanked.

In 2016, Sierra Leone has made effort in formulating a National Strategy for Financial Inclusion, the strategy have identified Six key areas necessary for promoting inclusive financial systems in the National Strategy: (a) responsive policy and regulation, (b) client-centric products and services, (c) digital financial services (d) access to finance for MSMEs, (e) financial education & consumer protection, and (f) data & measurement. These key areas will govern the strategies that will serve as framework in crafting



evidence-based regulations, designing and implementing demand-driven and client-centric programs, and monitoring progress relevant to financial inclusion. The importance of linking AML/CFT control obligations to the Financial Inclusion strategy to ensure risks are controlled effectively but not overly controlled cannot be overemphasised.

Four (4) financial inclusion products were identified and assessed in terms of risks:

1. Mobile phone
2. loans through Community banks/financial services associations
3. Prepaid Cards
4. Money Transfer- Domestic/International

### **2.8.1 Mobile Phones**

There are two leading telecommunication service providers in Sierra Leone (Airtel and Africell), with total subscriber base of 4, 390,000 at end December, 2015. Out of this total, Africell accounted for 71.2 % of subscribers and Airtel about 29%. There are three (3) major players engaged in the provision of mobile financial services namely; Airtel mobile money limited, a subsidiary of (Airtel Company (SL) Ltd), Splash mobile money (SL) Limited and Africash, a subsidiary of Africell Mobile Network. Mobile money usage is increasing in Sierra Leone, with total active subscribers to these mobile money service providers amounting to 513,000 at end December 2015. Mobile Financial Services (MFS) represent a significantly cheaper alternative to conventional branch-based banking that allows mobile money service providers to offer financial services by the use of mobile phones.

Guidelines for the operation of mobile money services have been issued by the Bank of Sierra Leone. One of the objectives of these guidelines is to ensure compliance with the AML/CFT Act 2012 in line with the standards set by the FATF. Whilst the risks of the products can be mitigated with the control measures outlined by the service providers, there are nonetheless external threats which include:

- The cash based nature of the economy will mean that a lot of cash in and cash out transactions will be undertaken without proper audit trail of certain beneficiaries. This is so because the service permits a third party non-user of the mobile money to receive cash through an agent or dealer. This exposes the product to possible terrorist financing schemes.
- The absence of cybercrime legislation and the system susceptibility to abuse means that it can expose many users to possible fraud and money laundering.

There are concerns about financial transactions conducted through mobile phone:

- Limited customer due diligence with respect to cash in and cash-out transactions for third party users of the services.
- Lack of capacity to supervise and monitor the platform used for mobile money.
- No evidence of proper monitoring of the settlement account held with various banks

Based on the assessment of the products vulnerabilities against attendant controls coupled with the wider threat environment, the overall risk for ML/TF in mobile money services is adjudged to be medium. Transaction limits are set based on account type. Mobile money services often serve as an interim step towards traditional banking. Although this service is easily susceptible to use by money launderers and terrorist financiers, it has the potential to reduce these risks compared to cash payments since mobile payments generates a visible and traceable audit trail.

Given the level of ML risks associated with mobile phone transactions, the FIU should collaborate with the BSL to ensure that appropriate steps are taken:

- KYC/CDD on customers as well as third party users of the services needs to be improved.

- Record retention and maintenance of audit trail for transactions needs to be maintained and properly archived.
- The expansion of the service will require a national policy making mobile payments an accepted medium of exchange so as to limit the usage of cash.
- Mobile money transactions should be integrated into the national payment system to ensure that it syncs with the formal financial services.

### **2.8.2 Loans through community banks and Financial Services Associations**

Community banks play an important role in promoting financial inclusion in Sierra Leone. These banks are located in rural communities providing basically financial services to the unbanked. Due to poor infrastructure and the likelihood of incurring high cost of operations, commercial banks are unwilling to expand their services to rural communities. To this end, the establishment of community banks is critical in bringing the vast unbanked rural population into the formal financial services. Financial products and services are further delivered in remote communities by Financial Services Associations (FSAs). There are however risks of ML associated with the operations of these institutions:

- Inadequate KYC and Customer Due Diligence: The customer base of community banks and FSAs is largely illiterate which often cannot provide information required to conduct comprehensive KYC/CDD exercises.
- The high level of poverty in remote communities coupled with the rate of illiteracy in the rural settings make them highly vulnerable to money launderers.

### **2.8.3 Prepaid Card on Point Of Sale (POS) Terminals**

Prepaid Cards are now widely used by the banking public for convenience and increased access to financial services without necessarily visiting the physical

premises of a bank. There are also third party users of this service as may be authorised by an account holder. It is no doubt that there are important financial product that will increase access and usage of financial services. However, virtual credit and debit cards could be funded with a scammed bank account – with instant transaction – and used to launder funds. Because online and mobile micro-payment are interconnected with traditional payment services, Funds can now be moved to or from a variety of payment methods, increasing the difficulty to apprehend money launderers. It is possible to launder a large amount of money in small amounts through thousands of electronic transactions using cards on Point of sales Terminals.

The BSL is working on National Financial Switch that will connect all banks, ATMs, e-commerce and Point of Sale (POS) terminals throughout the country to drive the use of electronic payments on domestic and international fronts. This infrastructure which will be completed in 2016 will further add meaning to the use of prepaid Cards for payments. Prepaid cards are electronic products that provide e-access to customers where there is an available Point of Sale (PoS) terminal. PoS is a portable device that allows local debit cardholders make payment for goods and services in a retail environment. PoS terminal provides a convenient, modern & efficient means of processing payment online & real-time as value is credited to the Merchants account within 24 hours. The card used for PoS also has its own risks and controls as listed below:

The use of national financial switch will enhance the monitoring of electronic transactions and help in detecting fraudulent transactions. The control environment including the security around the products suggest that the product exhibits a medium risk for ML and TF and as such require standard due diligence for potential users.

**Table 3.4: .....**

RISKS	RISKS MITIGANTS
Password pilfering	Customers are advised to keep their password safe and avoid password that is easy to decode
Customers Information Security	Customer cards are verified and their identities established before concluding transaction over the internet. Passwords, firewalls, public key infrastructure are some of the ways of strengthening authentication by Visa/Mastercard international platform.
Card loss/replacement	Cardholders upon expiration/theft /misplacement of their cards can request for new card. In the event of a card loss/theft, the cardholder immediately reports to their Bankers
Card Cloning/phishing	The Visa Debit, Prepaid Card & Mastercard is CHIP & PIN enabled Card that prevents from being cloned.
Impersonation of card owner to fraudulently activate card and make withdrawals	Effective implementation of dual control measures over custody of cards/ PIN mailers

Overall, the assessment of POS terminals revealed the following:

- Electronic cards pose considerable risks in terms its vulnerability for money laundering as well as terrorism financing.
- The overall vulnerability was rated to be high
- Data protection standards are not well enforced in Sierra Leone
- High level of fraud perpetrated by employees of financial institutions which compromises personal information and security of users of electronic cards.

#### **2.8.4 Money Transfer- Domestic/International**

Money transfer services are increasingly been used by account holds as well as the non-banked public. Several International Money transfers agencies such as Western Union, MoneyGram grant agent license to established financial institutions including banks and Foreign Exchange Bureaus to use their platform for the international money transfers. On the other hand there are various platforms for domestic money transfers operated by

various banks such as ; Sierra Leone Link operated by the Sierra Leone Commercial bank.

In terms of international wire transfers, it is regulated by the exchange control regulation of 2000. Foreign exchange transactions have been liberalized to facilitate payments for imports and Invisible payments such as travel, educational expenses, maintenance and medical treatment abroad.

The risk of money laundering using remittances domestic and international remain high, partly due to:

- Limited regulation of remittance services.
- Services used by occasional customers who are not well profiled is a major vulnerability.
- The inadequate internal controls in most of the small money remittance operators
- Inadequate application of know your customer and customer due diligence measures

To enhance compliance with AML/CFT requirements, it is helpful for the BSL as the supervisory authority of foreign exchange bureaux and other transmission businesses to ensure the following:

- Enforcement of risk based implementation of KYC/CDD on transactions using domestic and International Money transfer .
- Supervision and monitoring of Foreign Exchange Bureaus and other remittance service providers.
- Enforce record keeping and screening of customers and transactions against designated list of terrorists and their affiliates.
- License procedure should ensure adequate fit and proper test, as well as declaration and verification of source of funds.

Overall, the FIU should coordinate the drafting and adoption of risk-based, enforceable legal framework for supervision and compliance monitoring procedures for adoption of effective regulatory AML/CFT controls for financial inclusion products/services.

- AML/CFT regulations for financial inclusion products & services to be joint developed by the FIU and BSL who is responsible for implementing the Financial Inclusion strategy.

### **SECTION 3:**

#### **3.1 TERRORISM FINANCING RISK ASSESSMENT**

Terrorism financing has become a global phenomenon and a threat to the national security of any country, Sierra Leone has made some efforts to counter its impact. Three components can commonly be associated with terrorism financing. These are

men, munitions and money also known as the three M's. The first two have been given the appropriate attention and tackled by competent authorities accordingly. What has now remained a consistent challenge is “money from both legal and illegal sources” that can be used to finance the act of terrorism.

Terrorism financing risk was considered by the various sector working groups using the TF module provided. The legal framework on TF is the AML/CFT Act, 2012 and the Terrorism Prevention Regulation 2013. However, the AML/CFT Act 2012 criminalizes the financing of terrorism but it does not criminalize terrorism offence. The Terrorism Prevention Regulation 2013 sets out mechanism for the implementation of targeted financial sanctions related to United Nations Security Council Resolutions 1267 and 1373 and complying with international sanctions against terrorism and the financing of terrorism in Sierra Leone. Through on-site examinations, the FIU monitors compliance of financial institutions with the United Nations Security Council Resolutions. There is little evidence of Sierra Leone having been at risk from TF in recent years, with no STR relating

to TF being submitted to the FIU. Whilst there is no indication of TF taking place, however, the presence of large middle Eastern community in Sierra Leone (Syrians, Lebanese, Jordanians, Iranians etc) and the sheer size of the informal sector and unregulated money remittance services in particular exposes Sierra Leone's financial services sectors to possible terrorist financing.

Sierra Leone has ensured that its legislation is adequate to enforce any sanctions or other restrictions necessary, including terrorism financing. However a major lacuna in the legal framework is the absence of a Counter- Terrorism Legislation. Whilst tremendous work has been done to put a Draft Bill together in September 2016 through an inter-agency consultative committee, the Bill is yet to be passed into law by Parliament. The country has a robust counter-terrorism strategy but lacking the necessary resources to effectively rollout the measures envisaged in the said strategy.

There is a distribution chain process for updated lists of those designated persons, businesses and entities subject to sanctions by the United Nations and Regional Bodies in relation to terrorism to reporting entities, MDAs and private sector actors.

The NRA has also highlighted the need to continue to work with Not for Profit Organisations (NPOs) to raise awareness of the risks connected with TF. A number of charities based in Sierra Leone also operate in regions of the world where the risk of monies being appropriated for TF are high.

The Sierra Leone economy has come a long way from being battered by the ravages of a civil war, to regaining partial recovery until quite a year ago when it was hit hard by the Ebola Virus Disease. As the country is on track of going through a post-Ebola Recovering Program, a number of factors relating to the methods of doing business have served as possibilities to attracting terrorism financing. Some of them include the nature and level of cash based transactions used in the economy, the growth of partially regulated and unregulated money value transfer service, the presence of large Middle East communities



in the trading sector, the designation of Sierra Leone entities by OFAC and illegal trade in the precious minerals sector.

Based on the above considerations, it is important for the country to have a focus on country's vulnerabilities to mitigate the materialization of terrorism in the country:

(i) Amend the AML/CFT Act 2012 to criminalize terrorism.

(ii) The BSL should collaborate with relevant stakeholders to ensure the effective implementation of the National Financial Inclusion Strategy to reduce the use of cash in the economy.

(iii) The FIU should collaborate with relevant stakeholders to appoint a supervisory body for DNFBPs to enforce compliance with AML/CFT requirements.

(iv) The BSL and FIU should work together to determine the sources of funds of remittance service providers at the licensing stage and eliminate unregistered service providers.

### **3.2 FACTORS RELATING TO THE VULNERABILITY OF THE COUNTRY**

#### **3.2.1 LEVEL OF CASH USAGE/CASH-BASED TRANSACTION**

The financial system of the country is relatively underdeveloped. In addition there is a very high rate of financial exclusion and the activities of the financial institutions are concentrated in the capital city Freetown. This has served as a key factor for the high level of cash usage in the economy. With a high level of cash-based transactions, it could increase the risks of vulnerability of terrorism financing. It could also break the audit trail of funds used in terrorism financing leading to more challenges and difficulty for investigators and competent authorities.

### **3.2.2 UNREGULATED REMITTANCE SERVICE PROVIDERS**

The development and improvement in new modes of communication has facilitated the growth in the transactions of unregulated remittance service providers. Social media apps such as Whatsapp and FaceBook have been the key drivers of this trend. They are used to facilitate transactions executed by unregulated money value transfer service businesses. Some of them include foreign exchange bureaus with expired license and unregistered small businesses. The risks factors inherent in this area of the economy could be used by individuals and entities to finance terrorism.

### **3.2.3 PRESENCE OF LARGE MIDDLE EASTERN COMMUNITIES**

For decades, Sierra Leone has had foreign nationals from the Middle East such as the Lebanese. These nationals have formed large communities and are effectively key players in the economy. One trend that has been suspected over time is some of them have links either directly or indirectly with Al-Qaeda and Hezbollah. Their presence in the country could be a vulnerability that could be exploited for terrorism financing. Their engagement in the precious metals and stones trade, importation of goods and winning of government contracts for the supply of goods and services give them tremendous leverage in the repatriation of foreign currency to destinations abroad classified as high risk jurisdictions.

### **3.2.4 OFAC DESIGNATION OF SIERRA LEONE ENTITIES**

The Office of Foreign Assets and Control has designated certain Sierra Leonean individuals and entities with Lebanese origin for links with terrorist organizations such as Hezbollah. The designated list, though it is country specific and recognized by

US and Israel, is not recognized by the UN to which Sierra Leone is a signatory. However, the presence of such individuals and entities could be a vulnerability that could be exploited for terrorism financing.

### **3.2.5 TRADE IN PRECIOUS MINERALS**

Sierra Leone is very rich in precious minerals such as gold and diamonds. The latter is one of the major export and source of foreign exchange earnings for the country. Though there is a government body, the National Minerals Agency, mandated to regulate mining and trade in precious minerals, there is a prevalent level of illicit trade in these precious minerals through smuggling and illegal mining. In other instances, individuals and entities do misuse their prospecting license. These are key vulnerabilities that could be exploited for terrorism financing.

### **3.2.6. UNREGULATED STREET HAWKING OF CURRENCY**

Independent of the NRA the Financial Intelligence Unit conducted a risk/threat assessment of the unregulated street hawking of local and foreign currencies by peddlers whose identities are by no means certain or verifiable. The assessment revealed the following:

- that the beneficiaries behind the peddlers' activities are shrouded in mystery;
- unable to identify the sources of their foreign and local currencies;
- unable to determine whether peddlers own bank accounts of their own;
- their activity is open to abuse by counterfeiters of currency;
- lack of audit trail on transactions;
- non-application of CDD and KYC measures; and
- no record keeping of transactions.

The cumulative effect of these anomalies presents an opportunity to potential terrorist financiers to exploit this activity to fund terrorist operations not only with ease but without the possibility of trace.

### **3.2.7. High Level of Street Begging**

Another independent assessment carried out by the FIU to determine its implication for terrorist financing is the high level of street begging in the capital and urban towns. Although the assessment was unable to identify a direct nexus between street begging activity and terrorist financing, typology research studies carried out by GIABA and FATF found a linkage between begging by vulnerable persons and Boko Haram in North-western Nigeria. The study observed that the exploitation of alms-giving in West Africa appears to be a common practice (FATF Report: Terrorist Financing in West Africa).

## **SECTION 4**

### **4.1 CONCLUSIONS AND RECOMMENDATIONS**

Sierra Leone is susceptible to money laundering risk, due partly to the vulnerabilities of the financial system, including the presence of relatively large informal sector, preponderant use of cash to finance transactions especially Designated Non-financial Businesses and Professions (DNFBPs), such as real estate agents, casinos, dealers in precious metals and stones and cars. This is compounded further by the absence of supervisory bodies in some sub-sectors to ensure the effective implementation of AML/CFT control measures. The overall assessment of the risk faced by Sierra Leone in terms of ML is rated medium and low in the case of TF. This risk assessment however varies across the different sub-sectors, which is partly reflected in the extent of compliance with AML/CFT controls in the respective areas assessed. It is evident that of all the variables assessed, none emerged without a considerable amount of vulnerability being discerned. The risks observed, provide a reasonable basis for a more heightened response to them.

The banking sector in Sierra Leone is well supervised and commercial banks have developed reasonable AML/CFT controls to mitigate the risks of ML. There are however some weaknesses in the implementation of AML/CFT controls, Corporate and Trust Transparency and bank staff integrity. In contrast, the vulnerability to ML/TF risks is very high for the assessed DNFBPs, notably dealers in diamonds and cars, and legal professionals and accountants. The relatively high risk assessment of DNFBPs is attributed to the presence of structural risk factors such as the nature of products and services offered and the types of customers/clients in the sector, cash-intensive nature of business and the absence of regulatory agencies to ensure the effective implementation of AML/CFT preventive measures. Similarly, there is high risk of ML associated with foreign exchange bureau transactions and remittance providers. These institutions undertake large cash transactions with no effective implementation of AML/CFT controls by

supervisory authorities. The threat assessment revealed that ML risks are particularly high from corruption, drug trafficking and fraud in Sierra Leone. Mitigating these threats is however compromised by limited capacity of law enforcement agencies to effectively investigate these cases, inadequate resource capacity and the integrity of these agencies.

## **RECOMMENDATION**

1. Capacity building of Financial Crimes Investigators must be made a priority.
2. Provision of new technology such as analytical software and the requisite training on their use and maintenance.
3. Bureaucratic protocols hampering swift exchange of information amongst government agencies to be minimized where financial crimes are concerned.
4. Software to be made available to facilitate online reporting of suspicious transactions by reporting entities.
5. Court officials to be trained in adjudicating alleged financial crimes.
6. Financial crimes prosecutors to receive capacity building training.
7. The varying compliance gaps between accounting and auditing practices be addressed.
8. There is need for training of various personnel in all sectors of the economy, provision of resources, equipment, security infrastructure and collaboration between local organizations and international stakeholders. The specific recommendations are:-
  - Capacity building of Financial Crimes Investigators and prosecutors must be made a priority.

- Provision of new technology such as analytical software and the requisite training on their use and maintenance.
9. Bureaucratic protocols hampering swift exchange of information amongst government agencies should be properly coordinated by the FIU through MOUs for financial crimes.
  10. Software provided to facilitate online reporting of suspicious transactions by reporting entities.
  11. The BSL working with MoFED, ACC and the FIU should consider introducing a Bank Verification Number (BVN) system to stymie the multiplicity of unlinked individual bank accounts which are opened solely for laundering criminal proceeds.
  12. The Asset Declaration Regime in its current form is not serving any useful purpose. If easily accessible, asset declarations will provide much needed information to the FIU and other law enforcement agencies about the sources of the funds used to acquire those properties. The ACC should therefore consider proposing an amendment to Section 119(13) to provide for easy access to asset declaration forms.
  13. Asset declaration compliance is limited to public officials only. It is recommended that where a private individual is awarded a government contract above a prescribed threshold and that contract is financed in whole or in part from government funds, that private individual must be required to declare their assets.

Bank of Sierra Leone and law enforcement authorities should use their legal authorities to obtain all relevant information to identify non-compliance (unreported) suspicious transactions or collusion.

## 4.2 SUMMARY OF SECTOR-WIDE VULNERABILITIES

### **Weak systems and procedures to identify, investigate and prosecute corruption**

Even though the Anti-Corruption is able to identify corruption cases there are times it needs to think outside the box not to use the one size fit all method. Even though the Commission has the power to freeze assets of proceeds of corruption and file an application to court for such assets to be confiscated after conviction or an imprisonment, the courts have often resorted to levying fines. Most times the fines are not commensurate with the crime involved and amounts swindled.

### **Weak integrity and legal framework foundations to support these systems and procedures;**

Sierra Leone has the most robust Law in fighting corruption in Africa and one of the best in the world. Notwithstanding, integrity is the problem because Sierra Leoneans have not realised the damages and distortions corruption causes to an economy. According to a report published by the Institute of Governance reform (IGR) ([www.sierraloading.com](http://www.sierraloading.com)) the Sierra Leone Police (traffic personnel) received an estimated total of Le81 billion (US\$13,965,517) from bribery in 2015. The report continued to state that “three out of every five drivers”, (about 60%), interviewed pay bribe whenever they are stopped by the police for minor traffic offenses, while

another 60% of them claim to have been paying bribes ranging from Le2,000 to Le5,000 to traffic personnel.

The report also stated that Government lost an estimated Le700 billion (32% of revenue) 2015 from licenses fees and potential fines for traffic offences that are not paid to



authorized revenue collection agencies. If just one institution can generate Le781 billion a year, adding other sectors to this institution would likely sum up to trillion Leones.

Criminal law evidence framework is not compatible to modern day technology in relation to tendering evidence of IT recordings, text messages and social media because such technology was not in place when the laws were enacted.

The public especially the business community for example, a businessman will not report a customs officer who extorts money from him because he/she is gaining or afraid of being castigated by the officers, they therefore prefer to pay the bribe and remain quiet.

Sometimes the Anti -Corruption Commission is unable to prove some cases of corruption because it lacks modern sophisticated devices like GIS/GPS,CCTV and recorders to aid intelligence gathering. For example, if a driver is alleged to have given a bribe to a policeman, the driver might say that he/she is paying the policeman a debt and there is no way the ACC officer can counter his statement.

### **Weak integrity systems in the courts**

There are fundamental problems in the court system which creates avenue for doubt and loss of credibility, especially when corruption cases are easily thrown out of court. Corruption as a crime is a newphenomenon, quite removed from the general act of theft and burglary, in general acquisitive crime. Judges still write and do not type and this creates avenue for,

- a) the loss of evidence, intentionally or not.
- b) opportunityto revise his or her records after been compromised.

The judiciary, which is the guardian of laws can be compromised. Capacity of the judiciary remains at a low ebb and the posts of Attorney General and Minister of Justice are held by the same person, hampering impartiality. There are about350 lawyersin the

country and very few judges and other legal staff. Magistrates have very restricted jurisdiction and there is little or no law reporting to develop our jurisprudence. A dual legal system between customary and statutory law further complicates the picture. While the statutory law officials struggle to fully identify, assess and comprehend anti-money laundering and terrorist financing laws, the customary law officials would hardly relate any crime to AML/TF.

### **Poor records management**

Records management is a perennial problem in Sierra Leone and a bad practice that is held onto for personal interest. Issuing of receipts for transactions is not common and people hardly ask for receipts; taxis (save hotel taxis/car hire firms) do not issue receipts. Acknowledgement of correspondence, letters/memos, (a form of record keeping in itself) has dropped out of conventional practice in the public sector. This also extends to acknowledgement of receipt of e-mails.

### **Poor enforcement of rules and regulations**

a). ACC's failure to secure the guilty verdict, forfeiture or seizure of assets through courts with regards to former Director of NASSIT, the former Mayor of Freetown, the former Ombudsman and the former Minister of Fisheries and Marine resources and the out-of court settlement of the matter relating to the purchase of the NASSIT ferry are regarded to be serious weaknesses of the judicial process and pointers to the vulnerability of this economy.

### **Low remuneration for officials**

Remunerations are extremely low for many professional and managerial jobs which make them prone to rent seeking through which money launderers and terrorist financiers are likely to influence them. In addition to low remuneration, government's inability to check rising inflation has compounded the problem by raising cost of

living which in turn fuels bribery and corruption and other forms of predicate offences.

**Officials breach procurement regulations without sanction; etc.**

According to the ACC 2010 report, Public officials breach public procurement regulations and award contracts to companies and individuals based on interests or patronage, which sometimes leads to non-completion of projects and, or poor quality work or otherwise under-perform on the contracts.

**The absence of a stand-alone Fraud legislation in Sierra Leone statute**

Though other laws exist that deals with fraud, there is no law on fraud itself and about 130 fraud cases were investigated between 2010 and 2015. No assets had been identified for confiscation and very few, only about two cases, had been related to money laundering.

- Poor systems for rule-of-law based regulatory compliance with environmental laws/regulations
- Lack of effective compliance monitoring capacity by regulatory agency, the Environmental Protection Agency(EPA)
- Lack of effective enforcement mechanisms including sanctions makes the risk of identification or prosecution of environmental crimes highly unlikely
- There has never been a successful prosecution of environmental crime activities.

Incidences of environmental criminal activities reported included deforestation illegal logging, hunting in the forest reserves, illegal marine exploitations, illegal mining, importation/exportation of controlled substances, importation/exploitation of Ozone depleting substances and dumping of hazardous substances. Rulings about these environmental crimes are not easy to come by and the proceeds from these crimes had not been reported, neither had enforcement of the law taken place.

### **In-commensurate Penalties**

The Anti Trafficking in Persons Act 2005 prohibits all forms of human trafficking and prescribes a maximum penalty of 10 years imprisonment for both sex and labor offenses. However, this penalty is stringent but not commensurate with penalties for rape, which carries a maximum sentence of life imprisonment.

Only two convictions had been made since 2009 but according to Diane publishing (<https://books.google.com.sl>) forty seven cases of human trafficking were reported (between 2012 and 2015) but one was thrown out of court. One of these cases was prosecuted but no money or assets were confiscated.

### **High Youth Unemployment**

Due to the high unemployment rate, especially among the youths, there has been a tendency for Sierra Leoneans to seek employment elsewhere which has served as an antecedent to international trafficking. Recruitment agencies have emerged trafficking Sierra Leoneans to Kuwait, Libya, Sudan etc. luring them to the Middle East in general, with hopes of higher wages but statistics are yet to be known and so is the amount involved unknown.

Human trafficking is rated high because of the difficulty in identifying cases and lack of control measures to deter people from travelling to other countries seeking employment.

## **Intellectual Property**

Even though there is an Act that addresses counterfeit products and the property right law is underway, this predicate offense is rated as medium because of the tendency of pooling legal proceeds and illegal proceeds that can be put into the financial system.

### **Inadequate AML/CFT policies**

The main deficiencies found in the Banking sector were lack of proper identification, inadequate ML/TF risk assessment, inadequate AML/CFT policies, non-compliance with the AML/CFT policies and procedures, inadequate training, inadequate record keeping, inadequate staff within the compliance function, limited scope of independent testing of AML programmes, inadequate monitoring of customer transactions, and non-compliance with reporting requirements. Few STRs received (54), processed (48) and disseminated (38) over a period of nine (9) years.

All the insurers (insurance companies) do not have an internal AML/ CFT risk assessment on its insurance products and have never conducted any. There is very little or inadequate expertise on AML/CFT by Insurance practitioners.

### **Lack of Appropriate AML/CFT training**

Personnel of the industry and the insurance regulator do not possess the prerequisite training required to identify, assess and understand the risks of money laundering and terrorist financing. The lack of appropriate training by the industry personnel in detecting (PEPs) and other risky customers is also a challenge.

### **Inadequate security infrastructure**

Security structures and resources to combat ML/TF activities are inadequate when you consider all the variables that constitute the national vulnerability sectors; one would

vividly say these areas lack the necessary structures, training to mitigate any possible ML/TF activities.

### **The lack of Financial Investigators & Prosecutors, Forensic specialists**

Currently, criminal investigators double as financial investigators (not really trained AML/CTF personnel), which implies there is no dedicated Team to AML/CTF within the Sierra Leone Police. The SLP is yet to train a Forensic Accounting specialist.

### **No Cybercrime Legislation**

Cybercrime is on the rise and thus there is dire need for a Cybercrime legislation to mitigate this crime. There are challenges with regard to technical competence and expertise of officials in the Law Officers Department with regards to AML/CFT matters.

### **Poor Record Management**

Accessing pertinent documents during investigation is still a major challenge. Suspicious accounts may pose difficulty for the criminal investigator due to weak application of Customer Due Diligence (CDD) and know your customer (KYC) principles.

### **Issues emerging in DNFBPs**

- The trade in precious minerals is still largely informal and done outside the regulated financial institutions.
- The vast field of alluvial mining remains poorly supervised and regulated which continue to create opportunity for illegal mining activities to thrive.

- Poor record keeping and corruption pose major impediments in getting the sector to operate in line with international regulation.
- The lack of harmonisation of the fees and precious minerals trading taxes across the region contribute to widespread smuggling and related money laundering.
- There is a strong lack of implementation of ML/TF compliance policy, as well as monitoring procedures on the diamond dealers or Agents trading activities both with domestic and non-resident customers. Also no process in place to report suspicious transactions based on the provisions under the AML/CFT Act, 2012.
- Inadequate resources committed for the AML/CFT compliance program in collaboration with the diamond mining regulators to incorporate the provisions of the AML/CFT Act, 2012.
- Eighty percent (80%) of high risk customers are non-residents, whose diamond dealing transactions can be extremely difficult to identify and verify the source(s) of funds used for purchasing and selling diamond products, as well as in the twenty percent (20%) domestic diamond trading market. While ninety-three (93%) of the exported diamonds on a monthly basis are for international customers, the 7% diamond dealings are through the domestic market.
- No mandatory reporting to the law enforcement agencies on suspicious transactions on both the international and the domestic business activities of the customers.
- Theft and sale of diamonds is more often not treated within the criminal justice process adequately and there is hardly a case before the courts relating to larceny diamond. Even if reported to the police the matter is more likely than not to be

settled between the parties out of court leaving the thief and the purchaser with proceeds from an illegal activity which is then laundered in the financial system.

Given the above scenario, the overall scale of vulnerability level to diamond dealers in numeric terms of overall vulnerability to money laundering and terrorist financing is 0.90 (1.00), which poses 'Very high' ML/TF risks.

- The absence of AML/CFT obligation for players within the industry means that most obviously suspicious activities will go undetected and never investigated.
- Low capacity within the regulatory and law enforcement institutions are serious drawbacks to effective supervision and enforcement of applicable standards and regulations.
- The sector is very attractive for facilitating cash based transactions such as purchase of real estate and other properties, transfer of funds and other valuables, investment and setting up of companies/businesses.
- The sector is yet to be fully brought under AML/CFT regulation, this means that issues such as customer due diligence (CDD) will remain weak until AML/CFT

standards are rolled out to the sector and are regulated and supervised for that purpose.

### **Legal Profession**

- The profession is not effectively supervised and regulated for AML/CFT purposes by the General Legal Council.
- The source of funds or wealth from clients in acquiring properties can be difficult to identify and verify complex or unusually large transactions within the sector.



- The AML/CFT Act, 2012 requirements not incorporated in the Code of Conduct Statutory Instrument 2010, which regulates ethical standards of individual lawyers and provides sanctions for breach of its provisions.
- Lawyers' client transactions are not readily made available to monitor their business activities or transactions.
- Lack of awareness and client education to money laundering and financing of terrorism increases the vulnerability of the legal professionals within which clients seeking to misuse legitimate legal services to further their money laundering activities.
- Parliament enacted the Legal practitioner Act, 2000, but has not put in place anti-money laundering and terrorist financing measures; as such the ML/TF risk level is high for those seeking to misuse the services of lawyers in Sierra Leone.

In spite of the General Legal Council regulatory provisions and its Code of Conduct for lawyers in Sierra Leone, the absence of enforceable regulatory framework for lawyers poses a threat that criminals will seek to exploit their vulnerabilities and thereby causing a greater risk of ML/FT.

- No known cases for potential or existing ML/FT activity or STR mandatory reporting for legal service transactions undertaken on behalf of clients/customers.
- The service provided on behalf of clients/customers are mainly in the purchasing and selling of commercial and residential properties, land acquisitions and other high value services are expose to a 'H' level risks to Money laundering and financing of terrorist activities.
- The lack of access to records or mandatory STR reporting on clients that use the profession to purchase high valued residential and commercial properties poses 'H' level risk to launder money through the use of legal professional services.

Thus, the overall scale of vulnerability level to lawyers in numeric terms to money laundering and terrorist financing is 0.88 (1.00), which represents 'High' level of risks to ML/TF in the services provided by Lawyers.

### **Accountants/Auditors**

- No AML/CFT guidelines for the accountancy sector in Sierra Leone.
- Lack of ML/TF awareness to educate accountants/auditors, as well as the businesses undertaking the services provided by the accountancy firms.
- Most accountancy firms provide services to the corporate entities, but limited their accounting services to small and medium size businesses, which can be difficult to scrutinise their complex and unusual business transactions.
- No reporting mechanism in place by the accounting firms on the service provided to corporate entities, and the small and medium size businesses that underpinned risk issues on money laundering and terrorist financing activities through business activities in Sierra Leone.
- No known cases of ML/TF or STR mandatory reporting from Accountants or Auditor transactions on behalf of corporate entities, or small and medium size business transactions.
- No AML/CFT provisions incorporated into the accounting standards and principles of good practices in accordance with the ICASL requirements.
- The ICASL control measures are not adequate to prevent money laundering activities through private and public business transactions. There is no policy or procedures to guide accountants on issues of ML/FT compliance requirements.

- No ML/TF monitoring of accounting transactions or STR reporting to the law enforcement agencies.

However, the overall scale of vulnerability level to the Accountant/Auditor sector in numeric expression of final vulnerability to money laundering and terrorist financing is 0.83 (1.00), which represents a 'High' level of risks to ML/FT in the services provided by Accountants/Auditors in the sector.

**LIST OF APPENDIXES**

**Appendix 2** shows the asset composition of each of the community Banks as at December 31<sup>st</sup>, 2015

S/N	NAME OF COMMUNITY BANK	ASSEST SIZE IN Le '000	% ASSEST SIZE
1	Marampa-Masimera	1,659,110	4.01
2	Yonibana	4,847,516	11.72
3	Segbwema	4,394,034	10.62
4	Mathru	3,356,465	8.11
5	Zimmi	1,318,817	3.19
6	Kabala	7,172,316	17.34
7	Nimiyama	1,672,039	4.04
8	Pendembu	2,818,240	6.81
9	Sandor	1,281,476	3.1
10	Nimikoro	1,659,212	4.01
11	Simbaru	1,835,418	4.44
12	Tongo	1,997,611	4.83
13	Koindu	1,198,896	2.9
14	Taima	1,729,923	4.18
15	Sumbuya	898,982	2.17
16	Madina	1,634,818	3.95
17	Kamakwie	1,898,910	4.59
	<b>TOTAL ASSESTS</b>	<b>41,373,783</b>	<b>100</b>

**Appendix 3** shows the asset base of each of the commercial banks in Sierra Leone as at December 31<sup>st</sup>, 2015.

S/N	BANK'S NAME	ASSEST SIZE Le '000	% ASSET SIZE IN THE SECTOR
1	Standard Chartered Bank	673,699,650	12.74
2	Rokel Commercial Bank	696,534,420	13.17
3	Sierra Leone Commercial Bank	797,417,108	15.08
4	Union Trust Bank	371,776,973	7.03
5	Guaranty Trust Bank	664,205,921	12.56
6	First International Bank	365,366,264	6.91
7	First Bank Nigeria ( FBN)	135,590,282	2.56
8	Ecobank	619,561,487	11.72
9	Access Bank	159,838,978	3.02
10	United Bank for Africa	305,258,467	5.77
11	Skye Bank	102,853,093	1.95
12	Zenith Bank	322,592,237	6.10
13	Keystone Bank	72,877,722	1.38
	<b>TOTAL ASSESTS</b>	<b>5,287,572,602</b>	<b>100</b>

**Appendix 4:** Shows Comparison of Asset between commercial banks and community bank

<b>S/N</b>	<b>BANK'S NAME</b>	<b>ASSEST SIZE Le 'ooo</b>	<b>% ASSET SIZE IN THE BANKING INDUSTRY</b>
1	COMMERCIAL BANKS	5,287,572,602	99.2
2	COMMUNITY BANKS	41,373,783	0.8
		5,328,946,385	100

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