



# **NATIONAL RISK ASSESSMENT ON MONEY LAUNDERING & TERRORIST FINANCING**

REPUBLIC OF LIBERIA



**2019**



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## **FORWARD**

Like other countries around the world, Liberia is not resistant to the threats of money laundering (ML) and terrorist financing (TF). As a partaker of the regional financial system and by large, the international financial system with some set of externally-oriented economy, we are alert to the fact that Liberia's competitive advantages – disjointed flows of capital, people, goods and information; mounting legal and professional challenges; unsophisticated market, low infrastructure, and inadequate professional services – could also make it attractive for criminals seeking to hide or move funds. The fact that financial activities of criminal elements have become more sophisticated in the digital era and the prevalence of terrorist activities elsewhere, calls for additional vigilance.

Liberia is dedicated to combating ML and TF together with the international community. Although there are lapses in the effectiveness of the implementation of legal and regulatory framework, over the years we have put in place a robust anti-money laundering and counter-financing of terrorism (AML/CFT) regime with regard to international standards set by the Financial Action Task force (FATF). To stay ahead of the learning curve, we are putting the AML/CFT system under continuous review to ensure that it can live up to challenges posed by the fast-changing financial-market and security landscapes.

As part of our ongoing endeavors to strengthen the system, we have conducted this risk assessment to examine the ML/TF threats and vulnerabilities facing various sectors, and the environment. The assessment also identifies areas for further work so that more targeted responses can be formulated. In the absence of AML/CFT national risk assessment, over the past years we have taken various enhancement measures forward. These include updating the legal and regulatory framework, reinforcing the adoption of risk-based approach in preventive and supervisory measures, stepping up efforts to restrain and confiscate proceeds of crime, and strengthening international cooperation. The risk assessment will be updated from time to time as we continue our work to enhance our AML/CFT regime.

As always, the Government will spare no energies to commit the necessary resources to ensure that Liberia remains safe and clean to live, work, and do business.



**Cllr. Frank Musah Dean, Jr.**  
**MINISTER OF JUSTICE & ATTORNEY GENERAL**  
**REPUBLIC OF LIBERIA**

## ACRONYMS

AFI	-	Alliance for Financial Inclusion
AML	-	Anti-Money Laundering
ATM	-	Automated Teller Machine
BOs	-	Beneficial Owners
CAMS	-	Certified Anti-Money Laundering Specialist
CBL	-	Central Bank of Liberia
CDD	-	Customers Due Diligence
CFE	-	Certified Fraud Examiner
CFT	-	Countering Financing of Terrorism
CO	-	Compliance Officer
CTR	-	Cash Transaction Reporting
DNFBPs	-	Designated Non-Financial Businesses and Professions
DPMS	-	Dealers in Precious Metals and Stones
DRS	-	Disaster Recovery Sites
FATF	-	Financial Action Task Force
FI	-	Financial Inclusion
FIP	-	Financial Inclusion Products
FIU	-	Financial Intelligence Unit
GDP	-	Gross Domestic Product
GIABA	-	Inter-Governmental Action Group against Money
GoL	-	Government of Liberia
IIC	-	Independence information commission
IMF	-	International Monetary Fund
IPT	-	Investigation and Prosecution Team
KYC	-	Know your Customers
LEAs	-	Law Enforcement Agencies
LBR	-	Liberian Business Registry
LCC	-	Liberian Chamber of Commerce
LCLR	-	Liberia code of Law Revised
LICPA	-	Liberia Institute of Certified Public Accountant
LNBA	-	Liberia National Bar Association
LNP	-	Liberia National Police
LRD	-	Liberian Dollars

MFI	-	Micro-Financial Institutions
ML	-	Money Laundering
MM	-	Mobile Money Operator
MSME	-	Micro Small and Medium Enterprises
NAPEX	-	National Apex Village Savings & Loans Association
NBFIs	-	Non-Bank Financial Institutions
NGOs	-	Non-Governmental Organizations
NLA	-	National Lottery Authority
NPOs	-	Non-Profit Organizations
NPS	-	National Payments System
NRA	-	National Risk Assessment
OFIs	-	Other Financial Institutions
PEPs	-	Political Exposed Persons
PFM	-	Public Financial Management
POS	-	Point of Sale
RBA	-	Risk-Based Approach
RCFIs	-	Rural Community Finance Institutions
SEC	-	Securities Exchange Commission
SMEs	-	Small and Medium Enterprises
STR	-	Suspicious Transactions Report
TF	-	Terrorist Financing
TIN	-	Taxpayer identification number
UNCAC	-	United Nations Convention against Corruption
VSLAs	-	Village Savings and Loan Associations
WAMI	-	West African Monetary Institute
WB	-	Work Bank

## **DISCLAIMER**

The National ML/TF Risk Assessment of Liberia was conducted using the National Money Laundering and Terrorist Financing Risk Assessment Tool provided by the World Bank. The data, statistics, and information populated into the NRA Tool templates, including findings, conclusions and recommendations under the scope of Liberia's NRA process was an exclusive self-assessment done by Working Groups (Teams) and Liberia Authorities which in no way reflects the views of the World Bank.

## INTRODUCTION

Liberia became an Independent state on July 26, 1847. The country was founded in the early 1800s by emancipated slaves from the United States of America. These founders brought common laws with them to Liberia, their new territory, along with the institutions of parliamentary democracy and the English language<sup>1</sup>. Liberia is situated on the West Coast of Africa and is bordered by Cote D'Ivoire to the northeast, Guinea to the north and Sierra Leone to the west and the Atlantic Ocean to the south. The country has 579 kilometers of coastline and a land area of 11,369 square kilometers. The Capital city of Liberia is called Monrovia. Liberia has 15 counties and its population was estimated in 2017 to be 4.732 million<sup>2</sup>. According to the Economic profile of Liberia, 2018, a low-income country relies heavily on foreign assistance and remittances.

The country is rich in natural resources including gold, timber, diamonds, and iron ore<sup>3</sup>. It is richly endowed with water, mineral resources, forests, and a climate favorable to agriculture. Its principal exports are iron ore, rubber, gold, diamond and timber. The government has attempted to revive raw timber extraction and is encouraging oil exploration. The country experienced an internal armed conflict during the period 1989 to 2003, which ended with the signing of the Comprehensive Peace Accord (CPA) in Accra, Ghana and subsequent deployment of UN Peace Keeping force on October 1, 2003<sup>4</sup>. Both nationally and internationally, the financial space of Liberia is perceived to be porous. Many commercial banks as well as the Central Bank of Liberia (CBL) have been perceived to be involved in money laundering especially in the wake of the alleged missing L\$ 16 billion and subsequent response from the Country's Minister of Finance and CBL's Governor that no money was missing amidst galloping Liberia to US\$ exchange and infusion of US \$25 million by the use of emergency measures directly to money changers, larger importers and small business are reasonable concerns<sup>5</sup>. In addition, it is perceived that local banks and CBL have refused to enforce the many regulations on suspicious transactions including ceiling on wire transfer transactions and over the counter transactions. The inability of GoL to setup AML/CFT programs as required increases the risk of suspicious transactions and terrorist financing. To combat money laundering and terrorist financing, Liberia enacted several anti-money laundering and countering terrorist financing legislations.

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<sup>1</sup><http://history.state.gov/milestones/1830-1860/liberia>

<sup>2</sup> <https://data.worldbank.org/indicator/SP.POP.TOTL>

<sup>3</sup>[www.indexmundi.com](http://www.indexmundi.com)

<sup>4</sup><https://www.un.org/press/en/2003/sc7857.doc.htm>

<sup>5</sup> <https://www.liberianobserver.com/opinion/editorials/are-local-commercial-banks-and-cbl-engaged-in-money-laundering/>

The civil war weakened Liberia's culture of institutional governance, institutional accountability as well as regulatory governance on which effectiveness of an AML/CFT systems largely depend. Post-conflict Liberia is being faced with frightening challenges in fighting illicit financial trades particularly money laundering with little efforts being made by government in fighting the menace, despite the anti-graft institutions like the Financial Intelligence Unit (FIU), the Liberia Anti-Corruption Commission (LACC), etc., blaming their inefficiency to fight money laundering due to lack of political will<sup>6</sup>.

A 2014 International Narcotics Control Strategy Report (INCSR)<sup>7</sup> noted that money laundering has been difficult to detect because of Liberia's cash-based and dual currency economy, lack of financial transparency and record-keeping, political interference, corruption, weak capacity within law enforcement and the judiciary, and lack of adequate resources. The report also indicated that Liberia has a significant market for smuggled goods, which are easily imported as a result of its long, porous borders. The report further revealed that the country's banking sector was also contributing to money laundering because Liberia has nine banks, eight of which are foreign-owned. Approximately half of those banks provide money transfer services through Western Union and Money Gram outlets. About five local banks offer debit cards, automated teller machines, internet banking, and other modern bank products and services across the country.

Liberia is a member of GIABA<sup>8</sup>, a FATF-style regional body<sup>9</sup>. Liberia is member of the Economic Community of West African States (ECOWAS). Liberia's laws are consistent with the UN and African Union (AU) conventions against corruption and ECOWAS protocols on narcotics and psychotropic substances; which Liberia is a signatory<sup>10</sup>. The wave of increased predicate offenses in a challenging, changing-regional, and international financial environment continues to give rise to Money Laundering and Terrorist Financing (ML/TF) which potentially put the Global Financial Systems at risk. Criminals continue to conceal and move their illicit proceeds by investing in legitimate businesses through several schemes in the Bank Financial Institutions (BFI) and Non-

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<sup>6</sup><https://anticorruptiondigest.com/anti-corruption-news/2018/07/17/liberia-faces-daunting-challenges-in-the-fight-against-money-laundering/>

<sup>7</sup><https://www.state.gov/j/inl/rls/nrcrpt/2014/index.htm>

<sup>8</sup>[www.giaba.org/member-states/liberia.html](http://www.giaba.org/member-states/liberia.html)

<sup>9</sup>[www.giaba.org](http://www.giaba.org)

<sup>10</sup>[www.aumaticorruption.org](http://www.aumaticorruption.org)

<http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>

Dell, Gillian; *anti-corruption convention in Africa: what civil society can do to make them work*, pp. 15-36.

Bridge, Jamie & Loglo, Maris-Goretti; *Drug laws in west Africa: A review and summary*, (November 2017), pp. 5

Bank Financial Institutions (NBFIs) and the Designated Non-Financial Businesses and Professions (DNFBPs). It is estimated by the International Monetary Fund (IMF) that the magnitude of money laundered in the world is about 3-5% of the world's Gross Domestic Product (GDP) (IMF Report, 2008).

Financial Action Task Force (FATF) in its 40 Recommendations set out a comprehensive and consistent framework of measures, which countries should implement to fight ML/TF as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative and operational framework and different financial systems, and so cannot implement the same measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their peculiar circumstances (Revised FATF Recommendations 2012).

Specifically, Recommendation 1 of the Revised FATF Recommendations (2012) and paragraphs 3-6 of its Interpretative Note (INR 1), outline general principles that may serve as a useful framework in assessing ML/TF risks at the national level. As a result, the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) directed all member States at its plenary in Niamey, Niger in May 2014, to undertake and complete their respective National Risk Assessments (NRA) before the next round of Mutual Evaluation commenced in September 2016.

Therefore, this National Risk Assessment (NRA) is intended to provide guidance on the conduct of identifying and assessing threats and vulnerabilities of Liberia at national level, and it relates to key requirements set out in Recommendation 1. This Recommendation outlines general principles that may serve as a useful framework in assessing ML/TF risks at the national level.

## **OBJECTIVES**

The overall objectives of the NRA were to:

- a) Understand and determine the level of vulnerability of the economic and financial sectors to ML/ TF
- b) Determine and understand the weaknesses in the legal framework to help formulate an informed and robust regulatory development
- c) Review the criminal and administrative justice system, and existing preventive systems to determine their compliance with the FATF standard
- d) Measure ML and TF risks by identifying & prioritizing risks by analyzing the underlying threats & vulnerabilities so that the most appropriate and cost-effective mitigation measures can be designed & effectively implement.

## METHODOLOGY

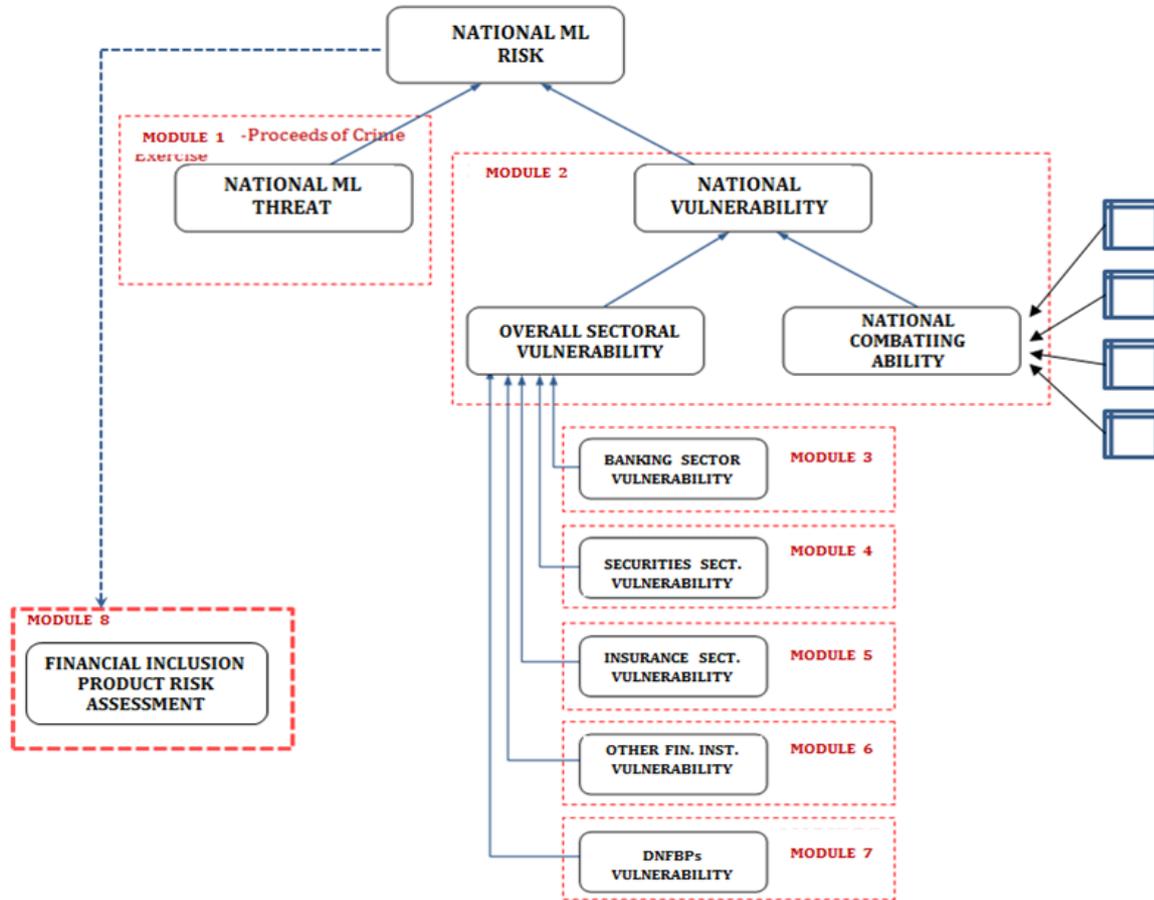
The Financial Intelligence Unit (FIU) of Liberia is the national coordinating body of Liberia AML/CFT regime. It established a National Committee to conduct the country national risk assessment as a self-assessment. The assessment was guided by international best practice measures. FIU broke the National Committee into eight working groups to conduct the risk assessment. The membership of the working groups includes representatives from law enforcement agencies, regulatory and prosecution authorities. The FIU adopted the World Bank tools – one of the FATF recommended tools use in the conduct of national risk assessment. The NRA process involved three phases: the first Phase being the Preparation, Launch and Initial Assessment, phase two being Data Collection, Analysis and Drafting of Report, and the last phase being the finalization and recommendations of the Report as well as a proposed Action Plan following the study.

In the conduct of the assessment, the following sectors were considered: bank financial institutions, non-bank financial institutions, and designated non-financial businesses and professionals. In accordance with the World Bank module, Liberia established working group composed of all AML/CFT related stakeholders in Liberia. The group was divided into eight (8) teams (2 national teams and 6 sector teams), with each team handling a separate module. The composition of the NRA Working Group is as follows;

<b>Working group</b>	<b>Module assigned</b>
Threat Assessment Team	TF Risk Assessment and Money Laundering Threat Assessment
National Vulnerability Assessment Team	National Money Laundering Vulnerability Assessment
Banking Sector ML Assessment Team	Banking Sector Money Laundering Vulnerability Assessment
Securities Sector ML Assessment Team	Securities Sector Money Laundering Vulnerability Assessment
Insurance Sector ML Assessment Team	Insurance Sector Money Laundering Vulnerability Assessment
Other Financial Institution Assessment Team	Other Financial Institutions Money Laundering Vulnerability Assessment
DNFBPs Assessment Team	Designated Non-Financial Businesses & Professions Money Laundering Vulnerability Assessment
Financial Inclusion Risk Assessment Team	Financial Inclusion Risk Assessment

These eight working groups used primary and secondary data through the administration of questionnaires and interviews consistent with the sector specifics. Other documents including legal

and regulatory instruments as well as relevant policies were also collected. The questionnaires and documentary were analyzed using the WB excel template and draft reports were organized by the various groups. (See the architecture of the WB excel temple below).



See the specific methodology unique to each sector in the assessment report.

**OVERALL MONEY LAUNDERING RISK IN THE JURISDICTION**

<b>OVERALL THREAT</b>	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		<b>OVERALL VULNERABILITY</b>				

## LIMITATIONS

Below are highlights of the main challenges encountered during the data-collection process:

- a) Data from institutions relating to predicate offences were not detailed as expected.
- b) Budgetary, time, and manpower constraints slowed the progress of the research at various intervals.
- c) Access to data in rural areas was limited. Respondents in rural communities could not be reached on telephone or by email due to change in phone numbers or email addresses.
- d) Most institutions did not have adequate Management Information System (MIS) to generate the required data requested by the Working Group members.

A more effective stakeholder awareness and inclusion mechanism will be employed in future NRA or sector risk assessment to ensure that the issues of risk assessment is considered as a national obligation for national economic and security benefits.

## EXECUTIVE SUMMARY

This NRA attempts to foster the ML/FT risk understanding in Liberia. The exercise identifies and evaluates threats, vulnerabilities and their influences on the Liberia economy and its financial system. The process verified the toughness of the present Liberia AML/CFT system. The objective was to understand, determine, assess and take risk-based approach in location of resources and addressing ML/TF risks, through robust policy formulation in legal and regulatory environment. Policy directions will change in the implementation of the recommendations.

Consistent with the findings and recommendations of the report, a robust National Strategic Plan will be developed and aimed at helping to mitigate deficiencies identified through the allocation of AML/CFT resources. The Plan will attempt to effectively subject “regulated entities” to AML/CFT obligations and compliance requirements to ensure the security of the national financial environment and the economy. The report and its Strategic Plan would prove the Government of Liberia’s (GoL) commitment to fight against money laundering, terrorist financing and other financial and organized crimes.

During the process, the World Bank provided the conceptual framework in the form of a national risk assessment tool (including excel templates), gave technical assistance and guided the working groups in the effective use of the tool. This report was developed by the working groups. Therefore, the findings, interpretations, and the subsequent Strategic Plan, are solely the products of the working groups of Liberia and they do not reflect the views of the World Bank (WB). Liberia’s NRA process includes three phases undertaken between November 2018 and August 2020. The last phase of the report – finalization, recommendations and the Action Plan are discussed.

Liberia Mutual Evaluation, which was carried out in 2010, recorded several strategic deficiencies in the country AML/CFT system. Some of the deficiencies contain scanty AML/CFT law and regulations, weak supervision of regulated entities, non-existence of FIU, among others. The situation has, however, changed as several legislations have been passed to address the shortcomings highlighted during the last Mutual Evaluation of Liberia in the year 2010.

The cash-based nature of the Liberia economy was acknowledged by all the sectors. As a result, encouraging financial inclusion in the financial sector was recommended. Many of the financial inclusion products have emerged and are operating. This has boosted the internal transfer of money, but has made the financial system vulnerable to ML/TF risks.

Regarding the threat analysis, the assessment concluded that crimes such as corruption and bribery, illicit trafficking in narcotic drugs and psychotropic substances, robbery/theft, tax evasion, human trafficking, and migrants smuggling, counterfeiting and piracy of products are the most rampant. The overall threat was rated as high while terrorism, including terrorist financing was rated low.

The assessment of the national vulnerability centered on 22 input variables with varying levels of capacity to deal with threats. The overall assessment indicates the existence of a legislative and regulatory framework, but a very low enforcement activity. With the national vulnerability rated as high and a very low capacity to deal with the threats, it was concluded that the overall sectoral vulnerability is high.

Weighing the threats and vulnerabilities, the overall ML risk for Liberia was rated as high. This is a product of the national ML threat, which was rated high, and the National Vulnerability, which has a rating of high. In terms of TF risk, the potential threat level is low, as there are no reported cases of TF in Liberia to date, although vigilance is necessary as a precaution given developments in the surrounding countries and the region.

On the other hand, the NRA has revealed that there are few sectors in which Liberia is working diligently, and achieving some results, particularly in the banking sector. Much effort has been made in the area of compliance because of some work undertaken by the regulator (Central Bank of Liberia). Nonetheless, this sector revealed that lack of national identification card, poor location addresses provided by customers hampered the effective implementation of know-your-customer (KYC) and customer due diligence (CDD) measures.

Notwithstanding, the exercise showed that ML/TF risk remains present in many sectors of the business environment. Some of the reasons given include a general lack of knowledge of AML/CFT issues on the part of the supervisors and accountable institutions, ineffective enforcement of laws by the regulators and supervisors. More importantly, the report notes the lack of inter-agency collaboration among the relevant authorities or agencies. Providing adequate resources, training and sensitization of personnel, of all stakeholders in the AML/CFT regime remain critical to strengthening inter-agency collaboration. Critically, the assessment noted the lack of an effective sanction system.

Turning to specific sectors, the Insurance and securities sectors are inexperienced industries that contribute below 2% and 0.56% respectively to Liberia's GDP. Therefore, the risk of ML/TF is comparatively low.

It was also observed that Other Financial Institutions, such as MFIs and Bureau de Changes, were susceptible to ML/TF risks. These sectors have benefitted from a robust licensing regime and some regulatory frameworks. However, supervision has been inconsistent especially with the advent of “fun clubs” and other organizations that accept deposits. Monitoring by the regulator has not been effective while the overall sector’s rating in terms of its vulnerability was **medium**.

DNFBPs were given a high rating for vulnerability to ML/TF risks. Casinos Operators and Betting Agents (operators of games of chance), Dealers in Precious Minerals and Real Estate Companies and Agents provided minimal responses to questionnaires. The weakness in the regulatory framework makes this sector attractive to money laundering schemes.

NPOs and NGOs have presented a fertile ground for ML/TF risks because of lack of AML/CFT measures, supervision and awareness. It is one of the few areas where legislation has not been enacted to effectively monitor their activities.

Regarding Financial Inclusion, we noted that in Liberia, low incomes are prevalent and large segments of the population do not have bank accounts. Institutions that offer financially inclusive products were assessed. The report identified a specific supervisory weakness and an inability to make appropriate adjustments relative to risk. This sector was rated as medium vulnerability.

New Payments Products and Services (NPPS) in use in Liberia, including mobile payments, prepaid cards and internet-based payment services carry the potential for ML/TF risks. The nature of these instruments coupled with the issue of the existence of mobile money platforms, makes it quite easy for mobile numbers to be used as a conduit for criminals.

Weak legal and institutional frameworks observed during the survey include: inadequate Anti - Money Laundering (AML) and Combating the Financing of Terrorism (CFT) safeguards, relaxed oversight by competent domestic authorities, weak procedures to inspect goods and registered-legal entities, inadequate record-keeping and information technology systems and lack of adequate coordination and cooperation among relevant agencies.

The following recommendations were made amongst others:

- Creation of a specific training programme for LEAs in the various specialized areas of financial crime investigations.
- Capacity building of financial crime investigators, prosecutors and LEAs, must be enhanced.
- The Government should allocate adequate funding to support the fight against ML/TF

- Inter-agency collaboration should be encouraged and enhanced.
- There should be effective implementation of Asset Forfeiture laws and regulations.
- Create a single infrastructure platform to capture the true biometrics of all residents in Liberia.
- Amend laws in respect of the Financial Institutions (FIs) sectors to compel them comply with AML/CFT regime/measures.
- Establish an Asset Management Office (AMO) to manage property seized and confiscated in order to obtain the required economic benefits to the country.
- The sanctions regime should be proportional, punitive, and dissuasive enough to deter criminals.
- Enhance tax auditing, monitoring, investigation and administration to punish tax defaulters.
- Supervisory and Regulatory Bodies should pay particular attention to the products/services with the highest vulnerabilities.
- The Government must take concrete and effective steps to improve the address system in Liberia to make it easy for Banks and other institutions to verify residential and business locations of their clients to enhance the conduct of effective KYC/CDD.
- FIU must also intensify its sanctions against Banks and other regulated entities that are found to be complicit and culpable in their failure to file Suspicious Transactions Reports (STRs) and Currency Transactions Reports (CTRs) as required by the provisions of FIU Act.

## **WAY FORWARD**

The assessment identified significant deficiencies in the country AML/CFT regime. To address these gaps, interventions will concentrate on the following major areas of work, including but not limited to: enhancing the AML/CFT legal and regulatory framework, strengthening risk-based supervision and coordination, sustaining outreach and awareness-raising, monitoring existing, new, and emerging risks, and strengthening law enforcement efforts and intelligence capability, strengthening prosecution and judicial capability.

## CHAPTER 1- ML RISK ASSESSMENT

### 1.1 MONEY LAUNDERING THREAT ANALYSIS

#### 1.1.1 ANALYSIS OF THE THREAT ASSESSMENT

According to the AML/CFT Act of Liberia, predicate offences to money laundering are those original crimes and/or acts which result in proceeds. Predicate offences are serious crimes, which give rise to the separate crime of money laundering. There are twenty-one (21) predicate offences to money.<sup>11</sup>

After comprehensive collection and analyses of information from LEAs database with the application of qualitative and quantitative methods of research, the following were derived as the most committed predicate offences in Liberia based on the number of cases investigated and forwarded to the court, the number of prosecutions, and convictions, namely; Corruption and bribery, Illicit trafficking in narcotic drugs and psychotropic substances, Robbery or theft, Tax evasion, Trafficking in human beings and migrant smuggling, Counterfeiting and piracy of products, currency counterfeiting and terrorism, including terrorist financing. The prevalence of these acts clearly exposes Liberia's AML/CFT system inability to control money laundering and terrorist financing. See table in appendix ratings of each prevalent predicate offence and their ratings:

Table 1: Summary ML/TF ratings for most prevalent predicate offenses

Predicate Offense	ML/Rating			
	High	Medium	Low	Rank/Priority
Corruption and bribery	High			1
Illicit trafficking in narcotic drugs and psychotropic substances	High			2
Robbery/ theft		Medium		7
Tax Evasion	High			3
Trafficking in human beings and migrants smuggling	High			5
Counterfeiting and piracy of products		Medium		6
Currency counterfeiting	High			4
<b>Terrorism, including terrorist financing</b>			Low	8
<b>OVERALL ML THREAT</b>	High			

The overall ML threat is high and TF threat is *Low*

<sup>11</sup> §15.3 of AML/TF Act lists the predicate offenses to ML

### 1.1.1.2 CORRUPTION AND BRIBERY

Corruption and bribery are regularly committed in Liberia, although government's efforts to control the acts are immense and outlined as follows; On May 1, 2007, Liberia signed the UNCAC<sup>12</sup>. Though not comprehensive, Liberia has implemented and enforced UNCAC and other conventions and protocols, in the following ways:

Firstly, in December 2006, the government, alongside civil society organizations and Liberia's international partners, developed and published a National Anti-Corruption Strategy, which led to the establishment of the Liberia Anti-Corruption Commission (LACC) in 2008 to investigate, prevent and prosecute acts of corruption in both the public and private sectors<sup>13</sup>. In 2009, the Public Finance Management (PFM) Law was enacted to protect public expenditures, increase financial accountability in the preparation of budget, and make financial and fiscal management more transparent, interactive and participatory<sup>14</sup>. In 2013, the Open Budget Initiative (OBI) was launched to enhance budget transparency<sup>15</sup>. Though laws on whistle-blowers and their protection have yet to be enacted by the Legislature of Liberia in 2017, a draft whistle-blower protection bill was validated pending enactment<sup>16</sup>. Currently whistle-blowers are not protected. An Executive Order 22 to Protect Whistle-blowers was issued by the President in 2009/2010 but by law had expired twelve (12) months after issuance.

In 2009, the Act establishing the Liberia Extractive Industry Transparency Initiative (LEITI) was enacted into law, being the first African country to do so. This Act mandates all government institutions and extractive companies to comply with LEITI's requirements, including transparency and accountability in the forestry, rubber, gas, oil, and mining sectors. Further, in

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<sup>12</sup>The United Nations, "The United Nations Convention against Corruption" October 31, 2003, A/58/422 UN General Assembly, available at: <http://www.refworld.org/docid/4374b9524.html> (assessed on April 2, 2017). Comments: The United Nations Convention against Corruption (UNCAC) is a multilateral convention negotiated by members of the United Nations. It is the first global legally binding international anti-corruption instrument. UNCAC was adopted by the United Nations General Assembly on 31 October 2003 by Resolution 58/4. It was opened for signature in Mérida, Yucatán, Mexico, from 9–11 December 2003 and thereafter at UN headquarters in New York City. It was signed by 140 countries. As of September 2016, there are 180 parties, which includes 176 UN member states, the Cook Islands, the Holy See, the State of Palestine, and the European Union.

<sup>13</sup>See [www.lacc.gov.lr](http://www.lacc.gov.lr)

<sup>14</sup>See [www.moci.gov.lr/doc/public-finance-management-law](http://www.moci.gov.lr/doc/public-finance-management-law). Also see See [www.liberlii.org](http://www.liberlii.org) Public Financial Management Law of Liberia

<sup>15</sup>The Heritage (local Daily) "Liberia: Open Budget Initiative Launched" (The Heritage: January 25, 2013). See [www.allafrica.com/stories/201301250954.html](http://www.allafrica.com/stories/201301250954.html) Liberia: Open Budget Initiative Launched. Assessed on May 22, 2017

<sup>16</sup>Joseph Koon and Maximilian Kasseh, "Draft whistle-blower and witness protection bills certified" (Liberia Broadcasting System: April 2017) See [www.liberianobserver.com](http://www.liberianobserver.com); Draft Whistle-blower, Witness Protection Bills Validated. Drafted by integrity institutions, government agencies, and Civil Societies, the whistle-blower and witness protection bills are expected to be submitted to the National Legislature for Passage.

2009, the landmark Land Commission Act was passed to protect and guarantee property rights to all Liberians<sup>17</sup>.

In 2010, the Public Procurement and Concession Commission (PPCC) Act was amended to include new regulations on improving the transparency of the government's public procurement and concession, with threshold for competitive bidding, limits on sole sourcing, conflict of interest regulations, blacklisting/debarment, etc.<sup>18</sup>. In addition, in 2010 an Investment Act was passed to create an improved environment that regulates Foreign Direct Investment (FDI)<sup>19</sup>. In the same year, the Freedom of Information (FoI) Act was enacted, followed by the establishment of the Independent Information Commission (IIC) to promote effective, equitable, and inexpensive exercise on access to information, with the provision of clear and concise procedures for obtaining information from the government. With this law, Liberia enjoys access to information based on request, freedom of speech, free press and proliferation of civil society groupings, broad -based citizen participation in the governance and budgetary processes, and the formulation of key national policy documents like the Poverty Reduction Strategy. In addition, in 2010, the landmark Commercial and Bankruptcy Code of Liberia was passed to regulate transactions, financial agreements and negotiations, thereby strengthening the system and operation of the Liberian economy.

Furthermore, the Code of Conduct was passed into law in 2014. Part X section 10.1 of the code of conduct requires all elected and appointed officials of all branches of the Liberian Government to, among other things, declare their assets, income and liabilities prior to taking public office and thereafter. The completed forms are lodged with the Liberia Anti-Corruption Commission (LACC), and guidelines relating to disclosure and verification have been established. The code of conduct also addresses issues of conflict of interest by public officials and employees of government<sup>20</sup>.

In 2005, 2011 and 2014, the General Auditing Commission (GAC), established in 1956 as the supreme audit institution of Liberia, was restructured and strengthened to become a world class audit institution. GAC reports to the legislature. and section 2.1.3 Part C of the revised GAC Act

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<sup>17</sup>[www.liberlii.org](http://www.liberlii.org)

<sup>18</sup>Martinez, Roberto, BarrancoKukutschka, "Liberia: Overview of Public Procurement" (U4 Anti-Corruption Resource Centre: 12 August 2013 Number 388) 2-6.

<sup>19</sup>The US Department of State, *Liberia Investment Climate 2015*, (US Department of State: 2015) 3-12.

<sup>20</sup>*An Act of Legislature prescribing a National Code of conduct for all public officials and employees of government of the republic of Liberia* (Ministry of Foreign Affairs: 2014) 22.

of 2014 gives the Auditor General (AG) the right to determine which institution to audit, when to conduct audit and the type of audit to be carried out. In 2012, a Mutual Legal Assistance (MLA) in Criminal Matters Act was enacted. This Act enables Liberia/competent authorities to collaborate with other states in criminal investigation and proceedings for the exchange of evidence, etc.

In September 2013, an Independent Internal Audit Secretariat (IAS), subsequently renamed Internal Audit Agency (IAA), was created to conduct regular internal audits in public institutions thereby fostering accountability and transparency<sup>21</sup>. In the same year, the Anti-Money-Laundering and Terrorist Financing Act of Liberia, and the Financial Intelligence Unit (FIU) were enacted. This was followed by the establishment of the Financial Intelligence Unit (FIU)<sup>22</sup> in 20014.

The year 2014 saw the amendment of the Liberia Revenue law of 2000 to establish a more independent Liberia Revenue Authority (LRA), the supreme tax collection entity of Liberia<sup>23</sup>. The creation of the Liberia Business Registry (LBR) as a one-stop shop to register businesses was the result of a massive reform effort to eliminate or, otherwise, reduce bureaucratic hurdles and the chances for corruption in the registration of business in Liberia. The 2011 U.S. Department of State report stated that petty bribery was widespread in all sectors of Liberia. The 2013 U.S. Department of State report recorded that: *"Judges were susceptible to bribes to award damages in civil cases. Judges sometimes requested bribes to try cases, release detainees from prison, or find defendants not guilty in criminal cases. Public Defence attorneys and prosecutors sometimes suggested defendants pay bribes to secure favourable rulings from or to appease judges, prosecutors, jurors, and police officers"*<sup>24</sup>.

The 2012 Afro barometer survey<sup>25</sup> on Liberia found that most of the police officers and tax officials were involved in corruption. It also found that only 6% of the population of Liberia considered that the police are not corrupt and 46% considered the presidency could be trusted<sup>26</sup>.

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<sup>21</sup> See [www.iaa.gov.lr](http://www.iaa.gov.lr)

<sup>22</sup> See [www.fiu Liberia.org](http://www.fiu Liberia.org)

<sup>23</sup> See [www.lra.gov.lr](http://www.lra.gov.lr)

<sup>24</sup> Comments: Annually, the United States Department of State produces country reports on Human rights practices covering international recognized individuals, civil, political, and workers' rights. The reports also cover countries receiving assistance and all United Nations member states to the United States Congress in accordance with the Foreign Assistance Act of 1961 and the Trade Act of 1974. See [www.state.gov](http://www.state.gov) Human Rights Report

<sup>25</sup> The Afro Barometer Survey is a pan African research network that conducts public attitude survey on democracy, governance, economic conditions, and related issues in more than 35 countries. See [www.afrobarometer.org](http://www.afrobarometer.org)

<sup>26</sup> See [www.afrobarometer/countries/liberia](http://www.afrobarometer/countries/liberia)

Major challenges of the reforms are the persistent corruption in the judiciary, political interference, lack of independence/autonomy, widespread police corruption, and an unhealthy network where everyone is related to another/patronage<sup>27</sup>. A practical daily challenge is that the Anti-graft and law enforcement Agencies are underfunded and under-capacitated in terms of human resources and expertise<sup>28</sup>. Many Law Enforcement Agencies (LEAs) and competent authorities in Liberia are hampered by insufficient funds and personnel, and do not seem to have the actual authority to independently investigate and prosecute [money laundering] cases, given its complexity and legal unfamiliarity. This weakens the capability of the LEAs to expose the ML and TF dealings of suspects and renders the LEAs ineffective in terms of investigation, prosecution and prevention of money laundering and terrorists financing.

As earlier indicated, Corruption and bribery are acts frequently committed in Liberia. The Liberia Anti-Corruption Commission (LACC) regulates these acts. An Act of Legislature established the LACC on August 28, 2008 with mandate to investigate, prosecute and prevent acts of *corruption*. The LACC Act also states that the Commission has specific functions ***“to investigate all acts of corruption discovered to have occurred in the public, private, and civil society sectors of Liberia....”*** Acts of corruption defined as per the act include Bribery, embezzlement, extortion, fraud, any economic and financial crimes (economic sabotage, money laundering), misapplication, etc. as also defined in the following statutes of Liberia, namely: Penal Law, AML/CFT Act, and Code of Conduct for all appointed officials.<sup>29</sup>

Corruption is a kind of organized crime usually committed by two or more persons. This is very rampant in the public sector involving government’s contracts, abuse of authorities, etc. There are several cases of corruption being investigated in Liberia including high-profile officials of government. Few examples include allegations raised by Global Witness, an International Non-Governmental anti-corruption campaigner based in London, United Kingdom, in which key

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<sup>27</sup> The US Human Rights Reports 2015 and 2016 branded the entire Judiciary of Liberia as corrupt. It says that Judges and juries accept bribe; generally implementation of laws in Liberia is influenced by corruption and that Members of the Judiciary including Judges and magistrates as not independent as per law but rather are subject to influence and corruption. [www.liberianobserver.com](http://www.liberianobserver.com) “Liberia’s Judiciary influenced by Corruption”. The 2016 version of the Report indicated that corruption persisted in the judiciary. Some judges accepted bribes to award damages in civil cases as they also solicit bribes to release detainees from prison or render favorable decisions. [www.state.gov](http://www.state.gov) Country Reports on Human Rights Practices for 2016 Liberia.

<sup>28</sup>Total staffers at the LACC are about 81 and gradually increasing. Of the 81, there are 21 investigators directly investigating corruption cases or complaints reported in a population of over 4.5 million. The rest of the staff is involved in education, prevention and administration works. Since its inception to present, LACC’s annual budget- excluding grants and donations from donor and international partners like the United Nations Development Programme (UNDP), Liberia Professional Development and Anti-Corruption Activity LPAC/ USAID- is below US \$3 million; which is drawn on monthly instead of quarterly through the Ministry of Finance and Development Planning (MFDP). See [www.mfdp.gov.lr](http://www.mfdp.gov.lr) Annual National Budget of Liberia 2008-2016. Also see [www.lacc.gov.lr](http://www.lacc.gov.lr).

<sup>29</sup> LACC Act 2008, Part V, Sections 5.1 & 5.2 (a)

current and past government officials were accused of soliciting and receiving bribes from Sable Mining, a British mining company to acquire an iron ore concession in northern Liberia.<sup>30</sup> The case commenced in 2016 and stalled due to interlocutory motion filed by the State on the admissibility of electronic [email] evidence. In mid-2018, the motion was heard and determined in favor of the state by the full bench of the Honorable Supreme Court. A new trial has commenced as instructed by the Honorable Supreme Court.

In November 2016 another case of corruption involving several officials of the John F. Kennedy Memorial Center who were accused of corruption [money laundering, theft of property, economic sabotage and bribery] of public funds at the JFK Memorial Center amounting to US\$108,926.19 and L\$16,867,841.40. They allegedly forged signatures of senior staffs before withdrawing from the JFK Hospital's accounts at three commercial banking institutions, for which they were convicted by the Criminal Court 'C'.<sup>31</sup> In 2017, former Sinoe County Superintendent was found guilty after he was charged and indicted for Corruption [Economic Sabotage, Criminal Conspiracy, Criminal Facilitation, Misapplication of Entrusted Property and Violation of the Public Procurement and Concession Procedures and Processes] in the awarding of contracts for the implementation of county development projects and was fined by the 14th Judicial Circuit-Rivercess County US\$50,000 to be paid into government's revenue within the period of nine months; and indicated that failure to do so would have led to his arrest and imprisonment until the amount is paid and a clerk certificate obtained, to which he has complied.<sup>32</sup>

There is little empirical data to support the detection of corruption and bribery, but public perception is high that they occur on a large scale in both the private and public sectors. It is generally perceived that the most corrupt sectors of Liberia were identified in the areas of public administration, public financial management, regulatory environment, and the Judiciary. Furthermore, the emerging energy sector, as well as the forestry and resources of Liberia were also faced with corruption.

A key conclusion drawn from the Afro-barometer corruption index released in 2018 November, by the Khana Group indicates that almost half or all Liberians [47%] say the level of corruption in Liberia has increased and that the Police, National Election Commission and the Legislature are

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<sup>30</sup><https://www.globalwitness.org/en/press-releases/global-witness-exposes-bribes-top-liberian-officials-uk-mining-company-and-varney-sherman/>

<sup>31</sup><https://www.liberianobserver.com/news/supreme-court-increases-sentences-for-convicts-in-jfk-theft-case/>

<sup>32</sup><https://www.liberianobserver.com/news/lacc-welcomes-court-ruling-against-sen-teahjay-but/>

perceived to be the most corrupt public officials. The report also showed that the police ranks as the institution that citizens most frequently acknowledge bribing during the previous year. Interestingly, two-thirds [67%] of ten (10) persons interviewed say it is not likely that authorities will act if they report corrupt behaviour<sup>33</sup>.

Similarly, Liberia's score on the Corruption perception index reported by transparency international dropped from 37 out of 100 in 2016 to 31 in 2017 and ranked 122/180 in 2018<sup>34</sup>. The Auditor-General's Annual report submitted to the Public Accounts Committee of the Legislature over the last five years- the period under review, suggests massive misapplication of Public funds by public institutions. Causes of corruption include institutional weaknesses, poor ethical standards, low level of integrity, non-enforcement or partial enforcement of laws, disregard or circumvention of procedures; institutional bureaucracies, which make access of such services frustrating, are a few examples<sup>35</sup>. All the above coupled with the high number of corruption and bribery cases reported and investigated as well as cases [being] prosecuted, corruption and bribery are the most prevalently committed predicate of all 21 and the empirically measured 8 offences.

ML threat was rated **high**

### 1.1.1.3 ILLICIT TRAFFICKING IN NARCOTIC DRUGS AND PSYCHOTROPIC SUBSTANCES

Illicit trafficking in narcotics drugs has emerged as an increasingly committed predicate offence in Liberia. Illicit trafficking is referred to as a global illegal trade involving the cultivation, manufacture, distribution and sale of substances, which are subject to drug prohibition laws<sup>36</sup>.

According to the 2016 International Narcotics Control Strategy Report by the Bureau of International Narcotics and Law Enforcement Affairs<sup>37</sup>, Liberia is not a significant transit country for illicit narcotics, but the country's nascent law enforcement capacity, porous border controls, and proximity to major drug transit routes contribute to trafficking to and through Liberia. The

<sup>33</sup> <http://www.afrobarometer.org/countries/liberia-0>

<sup>34</sup> <https://www.transparency.org/country/LBR>

<sup>35</sup> Overview of corruption and anti-corruption in Liberia, Marie Chène, Transparency International, [mchene@transparency.org](mailto:mchene@transparency.org) Reviewed by: Robin Hodess Ph.D, Transparency International, [rhodess@transparency.org](mailto:rhodess@transparency.org), Date: 5 March 2012 Number: 324

<sup>36</sup> <https://www.unodc.org/illicit-trafficking>; UNODC World Drug Report, 2008

<sup>37</sup> The 2016 International Narcotics Control Strategy Report (INCSR) is an annual report by the Department of State to Congress prepared in accordance with the Foreign Assistance Act. It describes the efforts of key countries to attack all aspects of the international drug trade in Calendar Year 2015. Volume I covers drug and chemical control activities. Volume II covers money laundering and financial crimes. <https://www.state.gov/j/inl/rls/nrcrpt/2016/index.htm>

report furthered that while Liberia is not a significant producer of illicit narcotics, local drug use, particularly of marijuana, is very common. Other drug usage includes heroin (mostly smoked) and cocaine (snorted). Local law enforcement authorities [LDEA and TCU] have reported increasing prevalence of amphetamine-type stimulants and intravenous drugs.

In addition, according to the report, while it is true that there is no reliable data on drug consumption or overall trends in the country, there exists credible data on law enforcement and judicial actions, which are reflected in the assessment. Other than marijuana, locally consumed drugs enter Liberia via commercial aircraft, maritime vessels, and across land borders by foot and vehicle traffic.

From the number of persons convicted and nature of names associated and involved, one can safely conclude that there is an established Nigerian criminal network operating within Liberia, some of which are involved in narcotics trafficking. Local authorities [LDEA and TCU] are aware of the threat and are working with the United States to prevent illicit criminal networks from gaining a stronger grip. Several local law enforcement agencies work in concert to fight narcotics trafficking in Liberia, including the Liberia National Police (LNP), Coast Guard, National Security Agency (NSA), Liberian Drug Enforcement Agency (LDEA), and the Transnational Crime Unit (TCU).

In 2010, Liberia signed the West Africa Coast Initiative Freetown Commitment<sup>38</sup>, a UN initiative to address the growing problem of illicit drug trafficking, organized crime, and drug abuse throughout the sub-region of Africa. <sup>39</sup>As of 2016, TCUs are fully operational in Liberia, Sierra Leone and Guinea Bissau, and in the start-up phase in Côte d'Ivoire. Very good operational results have been achieved by these units, translated in large quantity of drugs seized and criminals prosecuted and convicted. This initiative has enhanced the cooperation, collaboration, and coordination amongst Transnational Crime Units, Drug Enforcement Agencies, Immigration Services, etc. in the fight against illicit drug trafficking, transnational organized crimes, smuggling, money laundering etc. Some of the theft, trafficking, and smuggling cases in Liberia from 2016-2018 were derived from the collaboration and coordination of TCUs and DEAs in the region,

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<sup>38</sup>17th February 2010, Freetown - West Africa Coast Initiative "WACI" Freetown Commitment on Combatting Illicit Trafficking of Drugs and Transnational organized Crime in West Africa. In support to the implementation of the Economic Community of West African States (ECOWAS) Regional Action Plan to address the growing problem of Illicit Drug Trafficking, Organized Crime and Drug Abuse in West Africa 2008 -2011. <https://unipsil.unmissions.org/west-africa-coast-initiative-waci-freetown-commitment>

<sup>39</sup> UNODC - <https://www.unodc.org/westandcentralafrica/en/west-africa-coast-initiative.html>

particularly the TCU of Sierra Leone. In October 2014, the LDEA Act and a Controlled Drugs and Substances Act came into effect. These legislations conform to the UN drug conventions and provide a strong foundation for more effective law enforcement activities. Under previous legislation, defendants could only be charged under the public health law.

In 2014, before the drug law was passed, the Solicitor General/Ministry of Justice (MoJ) successfully used the public health law to prosecute six defendants and 28 more were pending trial. In 2015, 107 individuals were arrested under the new Anti-Drug Law and there were seven standing indictments, but no prosecutions. From 2016 to present, there have been seven (7) convictions and several prosecutions pending and ongoing.

ML threat was rated **High**

#### 1.1.1.4 ROBBERY

Robbery or armed robbery as defined by the Penal Law of Liberia, *Subchapter C. Robbery, § 15.30*. A person is guilty of robbery if, in the course of committing a theft, he inflicts or attempts to inflict bodily injury upon another or threatens another with imminent bodily injury. An act shall be deemed “in the course of committing a theft” if it occurs in an attempt to commit theft, whether or not the theft is successfully completed, or in immediate flight from the commission of, or an unsuccessful effort to commit, the theft. There are several occurrences of [armed] robbery as reported by media leading LEAs to adapt better and a well-coordinated approach to counter the suspected robberies<sup>40</sup>.

The victims of robbery cases detected/investigated included fuel/gas filling stations, financial institutions, churches and high net worth individuals thus, earning the robbers substantial proceeds running into several millions of Liberian and United States Dollars. Like most of the predicate offences, the total proceeds identified were not quoted or given, however many cases are recorded. Also, there was no money laundering charge to this and other predicate offenses due to the limited or no knowledge in money laundering investigation, prosecution, and adjudication.

In 2016 the 13th Judicial Circuit Court in Kakata, Margibi County sentenced three of ten armed men that attacked and robbed Ecobank-Liberia branch in Kakata to ten and five-year terms of

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<sup>40</sup><https://www.liberianobserver.com/news/armed-robbery-spree-leaves-monrovia-districts-fearful/>

imprisonment. Of the three Co-defendants, one was sentenced to ten years, while the other two received five years each<sup>41</sup>.

On Monday, May 21, 2018 at about 02:25 Liberian time, suspect 39, a Nigerian national and suspect 36, of the Igbo tribe and a resident of Logan Town community were arrested. Police investigation established that six unknown men armed with knives ,single barrel guns and other deadly weapons attacked the United Bank of Africa (UBA Bank) located at the Cuttington University compound, Suakoko, Bong County. According to Police investigation, the alleged armed robbers placed the bank's security guards on duty under gunpoint and took their phones including cash. The alleged armed robbers were alleged to have damaged the window bar of the bank in their quest to enter the bank<sup>42</sup>.

In addition, notorious criminals who made away with millions of Liberian dollars robbed MC2 Gbarpolu County Community Bank on Tuesday night, October 23, 2018 in Bopolu city. Through their investigation, they observed that the robbers left the amount of L\$2,515,595 plus US\$237.00. It was disclosed that on Thursday before the incident, they had used the PSU pickup to bring into the county L\$9,000,000.00. That amount was to service government workers' salary.<sup>43</sup>

ML threat was rated **Medium**

#### 1.1.1.5 THEFT

Theft is defined by the 1976 Penal Code of Liberia, Subchapter D. Theft and Related Offenses § 15.50. **Consolidation of theft offenses.** 1. *Construction of sections.* Conduct denominated theft in Sections 15.51, 15.52 and 15.53 constitutes a single offense designed to include the separate offenses heretofore known as larceny, defrauding and cheating, obtaining money under false pretense, embezzlement, extortion, blackmailing, receiving stolen goods, and the like, § 15.51.

**Theft of property,** A person is guilty of theft if he/she:

- (a) Knowingly takes, misappropriates, converts or exercises unauthorized control over, or makes an unauthorized transfer of an interest in, the property of another with the purpose of depriving the owner thereof;

<sup>41</sup> <https://allafrica.com/stories/201706140850.html>

<sup>42</sup> <http://lhp.gov.lr/lhp/index.php/2018/05/21/lhp-nabs-two-alleged-armed-robbers/>

<sup>43</sup> <https://frontpageafricaonline.com/front-slider/robbers-attack-bank-undisclosed-millions-of-liberian-dollars-thousands-of-us-dollars-intended-to-pay-govt-workers-stolen/>

- (b) Knowingly obtains the property of another by deception or by threat with the purpose of depriving the owner thereof or purposely deprives another of his property by deception or by threat, or
- (c) Knowingly receives, retains or disposes of property of another, which has been stolen, with the purpose of depriving the owner thereof.

In short, a person steals if he dishonestly appropriates a thing of which that person is not the owner. Theft ranked high amongst the most reported and investigated predicate offences in the period of this assessment; cases of theft involved huge sums of money belonging to private persons, organizations and the State.

State officials in connivance with suppliers, contractors and bank officials, create elaborate schemes to steal monies designated for government contracts and projects. Another conduit through which State's funds are stolen is the insertion of non-existent public-sector employees onto the government payroll. Padding of salaries or what is generally known as "ghost names" on the public payroll. Liberia lost about US\$200m over the last 10 years and loses approximately US\$2.5m of donors' funding annually through payroll padding according to the Internal Audit Agency of Liberia. In early 2018, some employees of the *John F. Kennedy Memorial Hospital* in cohort with other individuals designed a scheme and defrauded the government of Liberia. They were successfully prosecuted, imprisoned and ordered to reconstitute stolen funds<sup>44</sup>.

ML threat was rated **Medium**

#### 1.1.1.6 TAX EVASION

Once again, public perception of this predicate offence was higher than the figures obtained for the assessment. Information obtained from Liberia Revenue Authority (LRA) indicated that between 2013 and 2018 only seven (7) cases were investigated though there are media reports of several tax evaders in the country<sup>45</sup>. For instance, in early 2019 officers of the LRA nabbed a Lebanese businessman in perpetration of a major tax evasion scheme at the Roberts International Airport by escaping with a briefcase containing 56 kilograms or 1,900 ounces of gold valued at over US \$1million. Many believe this is one of several cross-border tax evasion activities occurring in the country<sup>46</sup>.

<sup>44</sup><https://www.liberianobserver.com/news/2-insurance-companies-to-payback-us108k-116m-stolen-from-jfk-hospital/>

<sup>45</sup><https://thenewdawnliberia.com/tax-evaders-shut-down/>

<sup>46</sup>[Africandailyvoice.com/en/2019/02/06/Liberia-nabs-lebanese-escaping-us2m-worth-gold/](http://Africandailyvoice.com/en/2019/02/06/Liberia-nabs-lebanese-escaping-us2m-worth-gold/)

In response to the scheme, the LRA indicated that taxes evaded by multiple businessmen under this kind of scheme are estimated at over US \$200,000.00 monthly- an amount sufficient to service the payroll of at least 1000 police officers and health workers.

Figures obtained from LRA also showed that from 2013 to 2018 an amount of US \$2,523,000.00 was evaded in tax by four (4) Medium and larger taxpayers nationwide.

ML threat was rated **High**

#### 1.1.1.7 TRAFFICKING IN HUMAN BEINGS AND MIGRANTS SMUGGLING

The Trafficking in person act 2005 of Liberia criminalizes trafficking in human beings and migrant smuggling. According to the US Government Department of state’s 2018 trafficking in person report, the Government of Liberia does not fully meet the minimum standards for the elimination of trafficking; however, some significant gains have been scored. During the period under review, the government of Liberia demonstrated significant efforts by prosecuting and convicting four traffickers in one case, its first trafficking convictions in four years, and providing shelter and services for at least three trafficking victims<sup>47</sup>. The 2005 Act to Ban Trafficking in Persons of Liberia criminalized labor trafficking and sex trafficking and prescribed minimum sentences of one-year imprisonment for adult trafficking and six years imprisonment for child trafficking though it did not include maximum sentences<sup>48</sup>.

Prosecutors often pursue other charges that were more likely to result in a guilty verdict, including rape, in lieu of sex trafficking. In one case, judges prosecuted four individuals for illicit human trafficking, and the primary suspect, a Sierra Leonean, was convicted and sentenced to eight (8) years imprisonment. The other three suspects—one Sierra Leonean and two Liberians—were convicted for facilitation of human trafficking and each received a sentence of one-year imprisonment. These were the government’s first trafficking convictions in four years and its first conviction of Liberian traffickers under the 2005 law<sup>49</sup>. In addition, On Monday, January 14, 2019, A Judge at Criminal Court “A” at the Temple of Justice brought down a guilty verdict on a Sierra Leonean woman who was on trial for human trafficking. She planned to sell two other Sierra

<sup>47</sup> <https://www.state.gov/j/tip/rls/tiprpt/countries/2018/282693.htm>

<sup>48</sup> [http://www.africanchildforum.org/clr/Legislation%20Per%20Country/liberia/liberia\\_trafficking\\_2005\\_en.pdf](http://www.africanchildforum.org/clr/Legislation%20Per%20Country/liberia/liberia_trafficking_2005_en.pdf)

<sup>49</sup> <https://www.state.gov/j/tip/rls/tiprpt/countries/2018/282693.htm>

Leoneans, 37 years and her daughter. She had brought them to Liberia under the guise that they were in Liberia to buy used clothes to take back to Sierra Leone<sup>50</sup>.

During the period, the Government [competent authorities] reported investigations of government officials allegedly complicit in human trafficking offenses; however, it did not report efforts to prosecute or convict said officials. Police investigated a government official for involvement in the alleged illegal transport of five Liberian children to the United States in 2017. It was unclear whether the allegations were for human trafficking or smuggling. In January 2018, the United Kingdom expelled two Liberian diplomats. The report indicated one of several reasons to allegedly facilitating prostitution.<sup>51</sup>

The Women and Children Protection Section (WACPS) of the Liberian National Police (LNP) is responsible for also investigating most trafficking cases. The Ministry of Labor (MOL) is responsible for investigating adult forced labor, and the Liberian Immigration Service (LIS) can investigate transnational trafficking or smuggling of migrants. Officials reported many labor inspectors, police, prosecutors, and judges remained largely unable to identify trafficking, which posed serious impediments to investigating and prosecuting such cases. In addition, some high-level officials did not have a clear understanding of human trafficking.<sup>52</sup>

To conclude, due to the little or lack of enforcement of our laws, a small number of Liberian men, women, and children are subjected to human trafficking while others are smuggled in and out of our borders to and from other West African countries, including Cote d'Ivoire, Guinea, Mauritania, Senegal, Sierra Leone, and Nigeria. Women from Tunisia and Morocco have been subjected to sex trafficking in Liberia, and Liberian women have been subjected to forced labor in Lebanon and Finland, while a huge number of Liberians seeking greener pasture are smuggled. Trafficking and smuggling in human is not as prevalent in Liberia compared to other predicate offenses like corruption, illicit drug trafficking, and smuggling.

ML threat was rated **Medium**

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<sup>50</sup> <https://frontpageafricaonline.com/news/liberia-woman-found-guilty-of-human-trafficking/>

<sup>51</sup> <https://www.state.gov/j/tip/rls/tiprpt/countries/2018/282693.htm>

<sup>52</sup> <https://www.state.gov/j/tip/rls/tiprpt/countries/2018/282693.htm>

### 1.1.1.8 COUNTERFEITING AND PIRACY OF PRODUCTS

Counterfeiting and piracy are a form of theft that is rapidly growing in Liberia and the world over. The infiltration of counterfeit and pirated products also called Intellectual Property (IP) theft creates an enormous drain on the global economy leading to billions of dollars lost to the ‘underground economy’ thus depriving governments of legitimate revenue for the provision of vital public services.

In celebration of the 2018 world IP day, the government of Liberia through its Intellectual Property Office (LIPO) recognized the danger of piracy by terming it as ‘a public enemy one towards economic growth’. LIPO was created by a legislative enactment on June 14, 2016 as an embodiment of the former Liberia Industrial Property and Liberia Copyright Offices. LIPO is semi-autonomous with statutory responsibilities to register patent, trademark, industrial design, geographic indications, copyright, etc. in consultation with other functionaries of government including the commercial court of Liberia that reviews contended decisions on Alternative Dispute Resolutions from LIPO or other administrative bodies<sup>53</sup>. Liberia is a signatory to the World Intellectual Property Organization (WIPO). Judicial databases could not provide many cases on intellectual property concerning counterfeit and piracy of product but media reports are frequent on the occurrence of same at the level of the Commercial Court of Liberia. For instance, in 2016 the Commercial court denied jurisdiction over a trademark infringement case brought against a Lebanese national.

On May 8, 2018, the Daily Observer Newspaper reported that ‘only 6 Liberian Intellectual Properties/trademarks were protected’ though Liberia is a member of the African Regional Intellectual Property Organization (ARIPO) and signatory to the ARIPO Harare Protocol for the protection of patents, utility models, and industrial designs.

Although Liberia is a member of the Banjul Protocol 2010 for the protection of marks, there are no marks, patent or industrial designed filed by a Liberian institution as of April 2018. The huge possibility or alarming rate at which artist and innovators’ works as well as public health products are being pirated in Liberia is a growing concern that needs to be reduced. Thus, there is a need to enhance IP awareness to the general public specifically including academic and research institutions.

ML threat was rated **Medium**

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<sup>53</sup> [www.li-po.org](http://www.li-po.org)

### 1.1.1.9 COUNTERFEITING CURRENCY

As a predicate offence, there are some occurrences of counterfeiting currency that are known and practiced in Liberia. Besides a predicate offence to money laundering, it is also a crime under the revised Penal Law of Liberia, 1979, chapter 15, section 15.70, 15.80, 15.52.

Law enforcement and prosecutors databases recorded cases of counterfeiting currency. On two separate occasions just in July 2018, the LNP arrested huge sum of counterfeit Liberian banknotes from a Guinean woman (L\$1,719,000.00) and a Nigerian man (L \$1.3 million); both arrest occurred at the Liberian-Guinean border being brought into Liberia. Also in 2018, a Nigerian Pastor was jailed for being in possession of US\$48,612.00 counterfeit bank notes.

ML threat was rated **Medium**

### 1.1.1.10 CROSS-BORDER THREAT ASSESSMENT

The cross-border threat assessment focused on declarations (Incoming and outgoing) of currency and bearer negotiation instruments, ML cases, Terrorist Financing Cases, knowledge of AML/CFT policies and strategies. A survey to assess the quality of border control and the integrity and effectiveness of judicial processes concerning cross-border transportation of currency and bearer negotiation instruments including other cross-border crimes (illicit trafficking and smuggling) was conducted during the NRA process. The review findings revealed that the border points are porous across the geographical spectrum of Liberia. Competent authorities responsible for the effective implementation of AML/CFT regulations (Regulation Dealing with Cross-border Transportation of Currency and Bearer Negotiable Instruments - Cross-border Regulation) have challenges in the implementation of the regulation. Some of the challenges range from limited resources, manpower, AML/CFT knowledge gaps, etc.

Cross-border threat was rated **High**

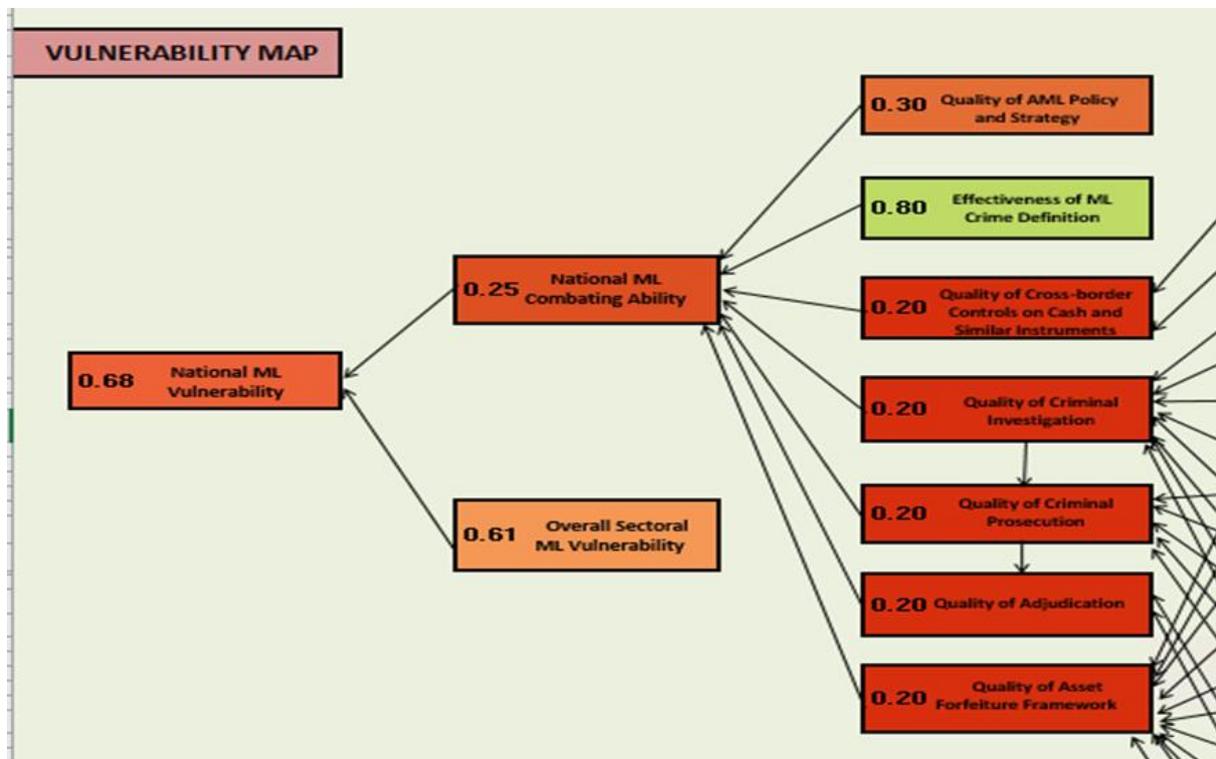
## 1.2 NATIONAL VULNERABILITY TO MONEY LAUNDERING

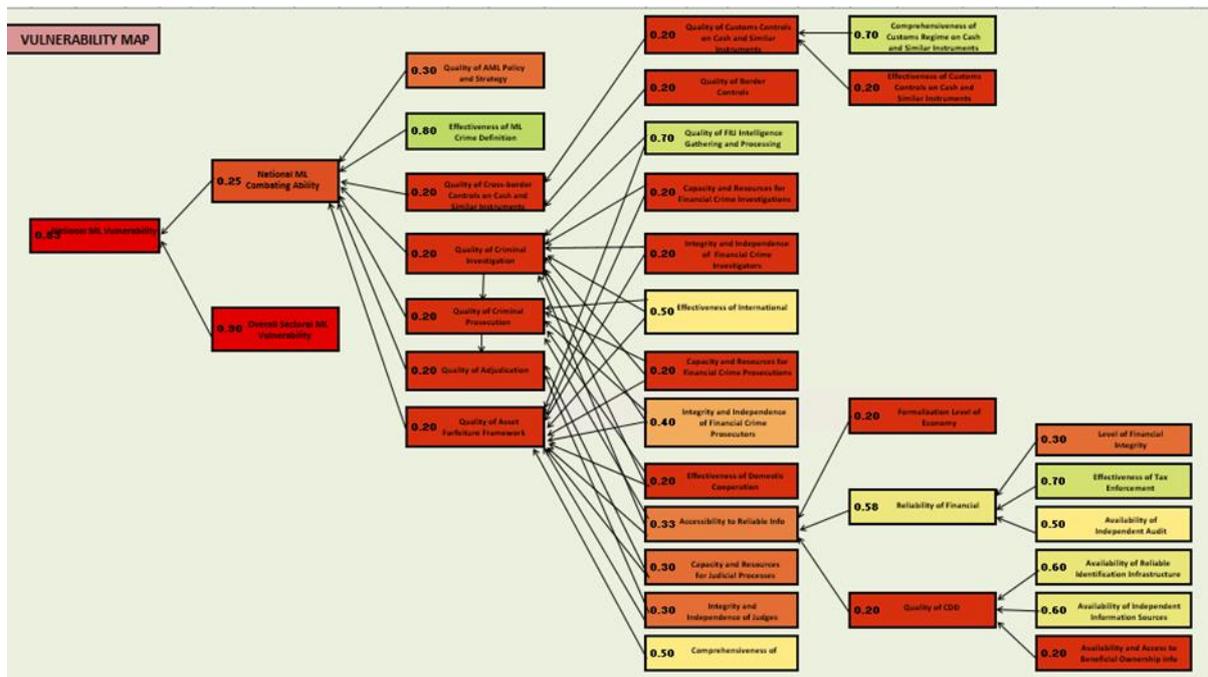
### 1.2.1 NATIONAL ML COMBATING ABILITY AND ML VULNERABILITY ASSESSMENT

This section aims to assess the National weakness (exposure) to money laundering and terrorist financing (ML/TF) in Liberia. The exposure to money laundering is said to be high when there exist chances to perpetuate money laundering. National Vulnerability to ML can be managed when the overall sector vulnerability is low, and the country's ability to combat it is high. Many factors contribute to the vulnerability of a country in the fight against ML/TF; some have a direct impact, while others have an indirect impact. The importance of influence depends on the availability or absence of the factors.

Generally, the assessment reveals that National ML Vulnerability is **medium high**. This medium high national ML vulnerability is the result of a **medium low** National Combating ability and a **medium high** Overall Sector vulnerability (see overall sector chart in appendix). The vulnerability map below depicts the findings

Figure 1: Vulnerability map





Liberia national ML combating ability is medium low primarily due to quality of AML policy and strategy; quality of cross-border on cash and similar instruments; quality of criminal investigation, prosecution, and adjudication and quality of asset forfeiture framework. On the other hand, the overall sector vulnerability is **medium high**. The **medium high** overall sector vulnerability is attributed to **high** vulnerability in DNFBPs sector, **medium** vulnerability in other financial institutions, banking and insurance sectors, and medium low vulnerability in security sectors. (see overall sector chart in appendix).

There are 22 input variables that influence the country’s ability to combat money laundering. Data gathered from various sectors assisted in assessing the ML vulnerability of each sector. The table below summarizes the most vulnerable areas under this component of the national vulnerability assessment.

### Component of the National Vulnerability Assessment

Criminalization of Money Laundering	Close to Excellent
Policy and implementation	High
STR Data Analysis	High
Criminal Penalties	Very High
Domestic Cooperation	High
International Cooperation in Criminal Matters	High
Capacity of Financial Crime Investigation	Medium

Integrity of Financial Crime Investigation	High
Capacity of Financial Crime Prosecution	High
Integrity of Presiding Officer	Very High
Tax Disclosure	High
Auditing and Accounting Standards & Practices	Medium
Public Financial Management Law	Medium High
Availability of independent Information	Medium High
Formalization of Economy	Medium High
Financial Integrity	Medium High
Asset Disclosure	Medium Low

## ANALYSIS OF VULNERABILITY ASSESSMENT

Twenty-two (22) input variables were analyzed to determine Liberia’s anti-money laundering and countering terrorist financing (AML/CFT) ability. See the ratings of lists of twenty-two (22) input variable in table 1 in the Appendix.

### 1.2.1.1 NATIONAL AML/CFT POLICY AND STRATEGY

A national AML/CFT policy guarantees political commitment and WILL to counter money laundering and terrorist financing in a jurisdiction. On the other hand, a national AML/CFT strategy illustrates the means through which ML and TF would be combated in a country. The instrument endeavors to establish the legal and regulatory, institutional, and implementation frameworks to enhance national ability to counter ML and TF. It as well establishes the Inter-Ministerial Committee (IMC). In the case of Liberia, the country developed a three-year national AML/CFT policy and strategy in 2010. As the result of the 2010 national AML/CFT policy and strategy, the seven (7) pieces of AML/CFT law were developed and enacted. The first AML/CFT regulation of financial institutions was issued. In addition, a robust AML/CFT sensitization and awareness program was executed for AML/CFT stakeholders. The instrument expired in 2013, and the country is yet to develop another national AML/CFT policy and strategy.

Furthermore, a national authority to oversee the formulation, coordination, and implementation of the instrument is yet to be established by enforceable means and published. Due to these shortcomings in the national policies and strategy of Liberia AML/CFT regime, **National AML/CFT Policy and Strategy**, was rated low.

ML Vulnerability was rated **Low**

### 1.2.1.2 EFFECTIVENESS OF ML CRIME DEFINITION

The Anti-Money Laundering and Terrorist Act, 2012<sup>54</sup> serves as a fundamental anti-money laundering law in Liberia. Chapter 15: Offenses Against Property of the Penal Law, Title 26 of the Liberian Code of Laws Revised was amended to include Sub-Chapter G, entitled: ***“Proceeds of Crime, Money Laundering, and Terrorist Financing.”*** This sub-section encompasses 15.1 Definitions; 15.2 Money Laundering; 15.3 Predicate Offenses for Money Laundering; 15.5 Assisting another to retain the benefit of criminal conduct; 15.6 Acquisition, possession or use of property representing proceeds of criminal conduct; 15.7 Concealing or transferring proceeds of criminal conduct. In sub-section 15.3, Liberia criminalized all the predicate offenses tabulated in FATF.

The offense of money laundering is punishable as a first-degree felony. Under the laws of Liberia, offenses graded as first-degree felony are punishable by ten (10) years of imprisonment. There are civil or administrative sanctions provided for money laundering, terrorist financing, predicate, and ancillary offenses as mentioned below. **“An Act to Amend the Civil Procedure Law to Provide Provisional Remedies for Proceeds of Crimes<sup>55</sup>** was approved by the National Legislature on April 29, 2013. Thus amending Chapter 7 of the Civil Procedure Law to reflect the following: “Chapter 7 Provisional Remedies, sub-chapter Preliminary Injunctions of the Civil Procedure Code, Section 7.64: Temporary Restraining Order, Title 1 of the Liberia Code of Laws Revised is now amended to add a Section 5, “Proceeds of Crime.” Accordingly, Chapter 7, Provisional Remedies of the Civil Procedure Laws is now amended to add sub-chapter G, entitled: **Specific Orders**. This now encompasses the following:

Section 7.120: Confiscation Order

Section 7.121: Benefit Recovery Order

Section 7.122: Freezing Order

Effectiveness of ML Crime Definition was rated **Very High**

### 1.2.1.3 COMPREHENSIVENESS OF ASSET FORFEITURE LAWS

Asset forfeiture is provided for in ***“An Act to Amend the Civil Procedure Law to Provide Provisional Remedies for Proceeds of Crimes.<sup>56</sup>”*** Chapter 7, Sub-Chapter G, entitled: ***Specific Orders*** provides the following:

<sup>54</sup> <http://www.fjiliberia.gov.lr/httpdocs/FIU%201%20Anti-Money%20Laudnering%20and%20Terrorist%20Financing%20Act%202012.pdf>

<sup>55</sup> <http://www.fjiliberia.gov.lr/httpdocs/FIU%203.Act%20to%20Amend%20Civil%20Procedure%20Law%20to%20provide%20provisional%20remedies%20for%20proceeds%20of%20crimes.pdf>

<sup>56</sup> <http://www.fjiliberia.gov.lr/httpdocs/FIU%203.Act%20to%20Amend%20Civil%20Procedure%20Law%20to%20provide%20provisional%20remedies>

### 1.2.1.3.1 CONFISCATION POWER

The power to confiscate is provided for in section 7.120. Under this section, section 1 defines confiscation power; section 2 deals with application issues:

- (a) *the assets laundered or terrorist property;*
- (b) *the proceeds, income, and gains from such assets;*
- (a) *the assets intended to be laundered;*
- (b) *instrumentalities used or intended to be used in the commission of an offense of money laundering or terrorist financing; and*
- (c) *assets as relating to the commission of any offense.*

### 1.2.1.3.2 BENEFIT RECOVERY OF ILLEGAL PROPERTY

The recovery of illegal property is provided for in section 7.21 of the “*Provisional Remedies for Proceeds of Crime Act*<sup>57</sup>,” 2012. Section 1 addressed application; section 2 detailed *determining the value of the benefit as*

- (a) *any money received by a defendant, or by another person at the request or by the direction of the defendant, as a result of the commission of the offense;*
- (b) *the value of any property that was derived or realized, directly or indirectly, by the defendant or by another person at the request or by the direction of the defendant, as a result of the commission of the offense; and*
- (c) *the value of any service or financial advantage provided for the defendant or another person, at the request or by the direction of the defendant, as a result of the commission of the offense; or*
- (d) *unless the court is satisfied that the increase was due to causes unrelated to the commission of the offense, any increase in the total value of property in which the defendant has an interest in the period beginning immediately before the commission of the offense and ending at some time after the commission of the offense.*

The management of the recovered illegal property is yet to be adequately addressed in the law. However, the hope is that this issue will be addressed in the current draft AML law.

### 1.2.1.3.3 POWERS TO FREEZE

Freezing power is provided for in section 7.22 of the “*Provisional Remedies for Proceeds of Crime Act*<sup>58</sup>,” 2012.

*where specified property is believed to be proceeds or instrumentalities of a crime or terrorist property, application shall be made by the Ministry of Justice or a competent authority under the law to the court for a property Freezing*

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<sup>57</sup><http://www.fialiberia.gov.lr/httpdocs/FTU%203.Act%20to%20.Amend%20Civil%20Procedure%20Law%20to%20provide%20provisional%20remedies%20for%20proceeds%20of%20crimes.pdf>

<sup>58</sup> See the reference above

*Order with respect to such property to preserve the specified property where it is indicating the grounds for belief that the property is proceeds or instrumentalities of crime or terrorist property.*

In spite of the existence to the above legal instruments, the application of the instruments in courts has been inadequate. For example, there has been no forfeiture of any illegal property in the Liberia justice system. This can be attributed to inadequate capacity on the part of investigators, prosecutors, and judges. The government needs to provide funding for the training of investigators, prosecutors, and judges.

Comprehensiveness of Asset Forfeiture Laws was rated **medium**.

#### **1.2.1.4 QUALITY OF FIU INTELLIGENCE GATHERING AND PROCESSING**

In Liberia, the Financial Intelligence Unit is the only recipient of STRs. Bank-financial institutions initially file these STRs; notwithstanding, FIU has extended STRs filing obligation to the non-bank financial institutions such as mobile money providers and with the plan to extend to others. In July 2018, DNFBPs such as the gaming sector was brought under the requirement to file STRs though no STR has been filed yet.

FIU analyzes filed STRs to determine whether a reasonable ground exists to suspect that the activities/transactions are related to proceed of crime or terrorist financing. The report is then forwarded to appropriate LEAs for further investigation. For example, analyzed report relating to corruption is disseminated to Liberia Anti-Commission (LACC); otherwise, where there is no reasonable ground to believe illegal activities, the information is placed in the FIU database for monitoring or subsequent LEA's request for information relating to such transaction.

The Table below outlined STRs received from reporting financial institutions (FI) (2015 to the 1st half of 2018). According to the table, for the period spanning 2015 to first half 2018, FIU received the total of 240 STRs (46 in 2015; 48 in 2016; 107 in 2017, and 39 in 1<sup>st</sup> half 2018) from FI. On the other hand, filing CTRs recorded the 368,529 at the end of 1<sup>st</sup> half 2018 (4,499 in 2015; 114,906 in 2016; 167,426 in 2017, and 81,697 in 1<sup>st</sup> half 2018) from the banks. The forty-one (41) analyzed STRs was disseminated to LEA for further investigation. Of the forty-one (41) disseminated STRs, 2, 10, 23, and 6 were disseminated in 2015, 2016, 2017 and 1<sup>st</sup> half 2018 respectively.

Table 2: Valid STR & CTR Recorded from 2015 to 1<sup>st</sup> Half 2018

Description	2015	2016	2017	2018 1 <sup>st</sup> half	Total of reports
STR	46	48	107	39	240
CTR	4,499	114,906	167,427	79,474	368,529
Disseminated	2	10	23	6	41

The regime has witnessed improved corporation among LEAs, regulators, and FIU, which has positively impacted the filing of STRs. For example, FIU collaborated with other heads of regulators and LEAs and conducted a series of awareness and capacity building for employees of these institutions and other reporting institutions. This awareness training has improved the quality of STR reporting by bank-financial institutions. As of June 2018, FIU has commenced rolling out AML/CFT awareness and training program to DNFBPs. FIU has intensified efforts to bring DNFBPs to AML obligations.

The FIU is structured as follow: the board of director oversees the entity, and headed by a Director and assisted by a Deputy Director who oversees operations. The Operations Department consists of Analysis and Compliance Sections. Operational and strategic analyses are performed by the analysis section, while Compliance Section enforces AML/CFT compliance across industries. On the other hand, Corporate Affairs Manager heads the Corporate Affairs Department. The Department comprises of Finance, Logistics (see appendix for FIU's the Organization structure). The institution has a person of specialized training although some of the staffers were trained using their personal resources.

Regarding adequate funding of FIU, the institution's budgetary allotment in the National Budget is low to address certain key issues. These issues include operational cost, infrastructure development funding, additional staffers, staff technical capacity building, among others. Currently, the entity has 23 support and technical staff. The lack of sufficient budget of the FIU and lack of FIU relational database to support maintaining STR/CTR reports/files suggest serious challenges to fulfill the core function of FIU in the production of high quality intelligence & analysis of STRs/CTRs. Furthermore, FIU does not have access to databases of other domestic agencies conducting investigations on money laundering and terrorist financing for analysis but collects,

analyzes, stores, and disseminates suspicious reports as well as threshold transactions reports effectively and efficiently. FIU does exchange information with other FIUs in the GIABA member state but not EGMONT member FIU.

Quality of FIU Intelligence Gathering and Processing  
was rated **high**.

#### 1.2.1.4.1 CAPACITY AND RESOURCES FOR FINANCIAL CRIME INVESTIGATION

Although AML/CFT investigation is a new phenomenon in Liberia, across the enforcement agencies, capacity and resources remain a major challenge. Technical knowledge needed to conduct a financial crime investigation is very low across LEAs. The lack of funding/resources for financial crime investigation further complicates the situation. For example, logistical support (vehicle, computer, internet infrastructure, etc.) is mostly unavailable across LEAs. Also, up to 2017, there was no money laundering indictment across enforcement authorities.

Investigation records are kept manually, cumbersome, and in some cases can be misplaced, manipulated or damaged. This poses a challenge of appropriate case management including the integrity of the evidence as well as the chain of custody in the process of preserving critical pieces of evidence for presentation in court.

Investigative agencies are not adequately structured, staffed, and funded with persons with appropriate skills in dealing with financial crimes. For example, at the Liberia National Police (LNP), only three officers are fully involved in conducting financial crimes investigation. The worst part of the situation is that there are no logistics like motor bikes, vehicles to make a follow up if there is a suspected case.

There is no statute limiting ML investigation to one agency, even though LNP investigates most ML cases. The legal framework to investigate financial crimes is not in doubt, and the criminalization of ML in the law meets best practice and FATF standard. In spite of all the legal instruments available to LEAs, they are yet to achieve successful investigations, prosecutions, and convictions of suspects. Considering the weaknesses in capacity and resources for financial crime investigation,

Capacity and Resources for Financial Crime Investigation  
was rated **very low**.

#### **1.2.1.4.2 INTEGRITY AND INDEPENDENCE OF FINANCIAL CRIME INVESTIGATORS**

Liberia Constitution vested in the President the power to appoint heads and deputy heads of ministries, agencies, among others. The head of a ministry or agency has the power to appoint department and sector heads. The head of most institutions involved in financial crime investigation do not have tenures. With these conditions, politicians may easily attempt to influence investigators involved in a high profile case. This remains a perception, but it tends to compromise the integrity and independence of financial crime investigators.

Transparency and accountability of investigators may be improved by subscribing to a “Joint Financial Crime Investigation Task Force/Inter-Agency Investigation Task Force.” In this case, one agency would not be able to manipulate on-going investigation. Despite the above, job security and training for financial crime investigators are still high. Integrity and independence remain a challenge. There is a lack of a basic monitoring mechanism to assess the independence and integrity of investigators. More training and research need to be undertaken to have an accurate picture of professional conduct of investigators.

In addition, there is no legislation or administrative regulation to preserve the integrity of the investigation of AML/CFT. The asset disclosure law could be used to improve integrity, as investigators would be required to declare their assets before taking an assignment as investigators. Investigators of ML/TF are free of interference of political pressure, social pressure, corruption, and intimidation. From mid-2016, about four to six cases have been reported. Considering the weaknesses in integrity and independence of financial crime investigators,

Integrity and Independence of Financial Crime  
Investigators was rated **Very Low**.

#### **1.2.1.5 CAPACITY AND RESOURCES FOR FINANCIAL CRIME PROSECUTIONS**

The office of the solicitor General (SG) prosecutes both civil and criminal cases in Liberia. Few attorneys are assigned to prosecute criminal cases including financial crimes. It is obvious that ML/TF prosecution is a new phenomenon in the Liberian justice system. Across prosecution practitioners, capacity and resources remain a major challenge in the AML/CFT regime with technical knowledge and skills needed to prosecute financial crime indictments. This capacity is

very low across prosecutors. The lack of funding/resources for financial crime prosecution further compounds the situation. For examples, logistical support (vehicle, computer, internet infrastructure, etc.) is almost unavailable across LEAs. In addition, up to 2017, there were no money laundering prosecution and conviction across the justice system.

Few attorneys have received some AML/CFT prosecution technical training. The training was broad and did not focus on ML cases. In addition, prosecution records are kept manually, cumbersome, and in some cases can be misplaced, manipulated or damaged. This poses a challenge of appropriate case management. The Ministry of Justice has a Financial Crimes Unit that handles all economic and financial cases. There is inadequate capacity and resources to effectively prosecute money laundering offenses and associated predicate offenses and the proceeds of foreign predicate offenses, including deliberately aiding and abetting all such cases.

Moreover, the prosecuting agency is not adequately structured, funded, and staffed by persons with the requisite financial training and skills in dealing with financial crimes (including money laundering and terrorist financing); as well as, in dealing with financial products and financial processes. The legal framework to prosecute financial crimes is not in doubt, and the criminalization of ML in the law meets best practice and FATF standard. In spite of all the legal instruments available to the justice system, indictments are yet to achieve successful prosecutions and convictions of suspects. Due to some of the limitations faced by prosecuting agencies in Liberia as outlined above, they seem not to cooperate effectively with international prosecution agencies in providing data as in the case of GoL versus Ellen Corkrum. Considering the weaknesses in capacity and resources for financial crime prosecution,

Capacity and Resources for Financial Crime prosecutions was rated **Very Low**.

#### **1.2.1.5.1 INTEGRITY AND INDEPENDENCE OF FINANCIAL CRIME PROSECUTORS**

The Liberian Constitution vested in the Attorney-General the power to initiate and prosecute all cases in the country. The Attorney- General is also the Minister of Justice and is appointed by the President. The Division of Prosecution handles all prosecutions and is headed by the SG. The SG assigns cases to an attorney for prosecution and attorneys report directly to the SG.

With the conditions where appointee could receive dismissal threat when such appointee refuses to compromise prosecution of political-heavy weight, politicians may easily attempt to influence prosecutors involved in a high-profile case. This remains a perception, but it tends to compromise the integrity and independence of financial crime prosecutors. To some extent, prosecutors enjoy sufficient operational independence autonomy in law in all cases in Liberia including money laundering, terrorist financing, and predicate offenses.

So far, there has been no statistics of integrity breaches. But prosecutors are civil servants, and the Civil Service Standing Order governs all civil servants. Chapter 4.2.2 of the Civil Service Standing Order catalogs the Acts of commission by a civil servant and appropriate penalty. One of such is dishonesty in the conduct of Government business is punishable by one (1) month suspension without pay or dismissal. In Liberia, from courts' records, there has been no case of money laundering that has been tried and offenders being convicted with the confiscation of properties. However, there has been one case with employees of the First International Bank (FIB), where suspected employees were arrested and placed on trial. The assets of those suspected were confiscated and are still in the custody of the court. The problem here seems to be both convictions and confiscation emanating from investigation. Sharpening prosecution capacity would resolve some of these problems.

Despite the above, job security and training for financial crime prosecutors are still high. Integrity and independence remain a challenge. There is lack of a basic monitoring mechanism to assess the independence and integrity of prosecutors. More training and research need to be undertaken to have an accurate picture of professional conduct of prosecutors. Considering the weaknesses in integrity and independence of financial crime prosecutors,

Integrity and Independence of Financial Crime  
Prosecutors was rated **Low Medium**.

#### **1.2.1.5.2 CAPACITY AND RESOURCES FOR JUDICIAL PROCESSES**

The Liberia judicial system is well-structured (Justice of the Peace, Magistrate, Criminal Courts, Civil Court, Circuit Courts, and Supreme Court) but there is no specialized court for financial crime prosecution. All criminal cases start from magisterial courts and then to the court of records/circuit courts. In the capital where the judiciary resides, four (4) criminal courts adjudicate criminal cases.

The judges in Liberia do not have adequate capacity and resources to effectively undertake judicial processes in investigating cases of money laundering and asset forfeiture. As a result of this, Money Laundering and Asset Forfeiture cases in Liberia are treated and handled like any other criminal cases, except that there may be asset forfeiture if there is sufficient evidence to prove that the assets in possession of the accused were acquired as a result of the proceeds of crime. The court responsible for handling all financial crimes committed against the state is Criminal Court “C”. These crimes encompass economic sabotage, corruption, embezzlement, money laundering, etc.

There has been no case that leads to trial, conviction, imprisonment, or asset forfeiture. For example, in the case involving a former Roberts International Airport Director General was indicted for corruption and misappropriation, a crime allegedly committed while serving as managing director for Robert International Air Port. Prosecutors are struggling to proceed with the matter due to the international complexities surrounding the accused who fled the country to America where it is believed that the then manager is a citizen and extradition is yet to take place. Across the judicial system, capacity and resources remain a major impediment in the AML/CFT regime of Liberia. AML/CFT Technical knowledge and skills are necessary to adjudicate financial crime cases. This capacity is very low across judges. The lack of funding/resources for financial crime adjudication further compounds the situation. For examples, logistical support (computer, internet infrastructure, etc.) is almost unavailable across the judicial system. Also, up to 2017, there was no money laundering conviction across the justice system.

Some judges received AML/CFT technical training but the training was broad and did not focus on ML adjudication. The regular rotation of judges also poses challenges. Also, court records are kept manually, cumbersome, and in some cases can be misplaced, manipulated or damaged. This poses a challenge of appropriate management court records.

The legal framework to prosecute financial crimes is not in doubt, and the criminalization of ML in the law meets best practice and FATF standard. In spite of all the legal instruments available to the justice system, adjudication of cases is yet to achieve successful convictions of suspects. Considering the strategic weaknesses in capacity and resources for judicial processes,

Capacity and Resources for Judicial Processes was  
rated **Low**.

### 1.2.1.5.3 INTEGRITY AND INDEPENDENCE OF JUDGES

In Liberia, there is no law to protect judges adjudicating ML proceedings. This makes the issue of integrity and independence a challenge. Most criminal cases are often left to the discretion of impoverished jurors who are sometimes tempered with. For example, the case involving the former Managing Director of the National Port Authority is currently on retrial because the jurors were disbanded. The Supreme Court ordered the jurors disbanded after Government applied that the jurors were tempered with. The government was able to prove their assertion; and hence, a new trial was ordered, and the jurors were disbanded.

Although no statistics to record breaches in the judicial system, Transparency International report<sup>59</sup> has criticized the integrity and independence of the Liberia judicial system. Further, there is a strong public perception relating to the integrity and independence of some judges. Nevertheless, a high number of judges remain resolute and carry out their roles with integrity. Considering the strategic weaknesses in the integrity and independence of judges,

Integrity, and Independence of Judges was rated **Low**.

### 1.2.1.6 QUALITY OF BORDER CONTROLS

Liberia is surrounded by three countries, Guinea, Cote d'Ivoire, and Serra Leone with porous points of entries. The Liberia Immigration Service registered 173 entry points. Of the amount, only 45 witnessed the deployment of LEA officers. These controlled borders lack appropriate equipment and infrastructure to ensure a robust and effective ML/TF control. Of the one hundred and seventy three (173) entry points, only forty-five (45) are recognized as official, and one hundred and twenty eight (128) are vulnerable to the influx of cash smuggling.

The borders control of Liberia is porous for people who may want to smuggle bulk cash, precious stones. There are eight (8) counties, Nimba, Capemount, Lofa, River Gee, Gbarpolu, Maryland, Bong, and Grand Gedeh that have porous borders. There are one hundred and seventy five (173) entry points with one hundred and twenty eight (128) considered to be porous. Forty-five (45) of the entry points are assessable to vehicles, or motor bikes.

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59 According to TI's CPI Index for 2012-2017: Liberia registers the highest increase in corruption in all Africa and 4th highest in the world (behind St. Lucia, Bahrain & Syria); 2016-2017 Liberia has highest increase of corruption in all Africa and 2nd highest in the world (behind Bahrain).

Each traveler entering Liberia is requested to declare the amount of money that he/she is traveling with. However, one challenge is that there is no equipment to detect counterfeit currency. Liberia entry points are controlled by Liberia Immigration Services (LIS), Liberia Revenue Authority (LRA), National Security Agency, Liberia National Police (LNP), and Liberia Drug Enforcement Agency (LDEA). One hundred sixty-eight (168) points of entries are uncontrollable. These uncontrollable entries are susceptible to Organized Criminal activities, which pose significant vulnerability and threat to the country's endeavor to counter ML and TF. Considering the weaknesses in the quality of Liberia border controls,

Quality of Border Controls was rated **Very Low**

#### 1.2.1.6.1 COMPREHENSIVENESS OF CUSTOMS REGIME ON CASH AND SIMILAR INSTRUMENTS

This section seeks to examine the comprehensiveness of the law/ regulation(s) on cash and similar instruments. The analysis attempts to assess the comprehensiveness of the regulation itself. The Cross-Border regulation is comprehensive/ far-reaching and dissuasive in comparison with other similar model of international instruments to counter ML/CF through cross-border. The main authority to monitor the customs regime on cash and similar instruments at all border entries is the LRA. Officers of LRA are deployed to the forty-five (45) land-port of entries, the two airports, and three seaport of entries. Also, other LEA's officers assigned to these ports of entries also coordinate their respective duties to assist LRA in monitoring the cash and similar instruments' movement.

In May 2015, the FIU and LRA issued a joint regulation "*Regulation Dealing with Transportation of Currency and Bearer Negotiable Instrument*"<sup>60</sup> (FIU/OR1-TCN/05/2015). However, the instrument did not provide requirement for the movement of precious stones and metals as these are one of the instruments used through cross-border ML/FT. The regulation aims to enhance customs regime on cash and similar instruments but excluded precious stones and metals. Due to the weaknesses in the customs regime on cash and similar instruments,

Comprehensiveness of Customs Regime on Cash and Similar Instruments was rated **high**.

<sup>60</sup><http://www.filiberia.gov.lr/httpdocs/REGULATION%20DEALING%20WITH%20CROSS-BORDER%20TRANSPORTATION%20OF%20CURRENCY.pdf>

#### 1.2.1.6.2 EFFECTIVENESS OF CUSTOMS CONTROLS ON CASH AND SIMILAR INSTRUMENTS

A Country's declaration regime is effective when all passengers are informed concerning the country's existing regulatory or legal requirements and consequences of any violation; ensure that most people appropriately declare cash and similar instruments while entering and leaving the country. Additionally, the regime is considered robust when adequate screening procedures and equipment are in place with the adequate human capacity to carry out the process. Appropriate measures and sanctions for failing to declare are other indicators for effective declaration regime. In the case of Liberia, though Liberia had issued appropriate regulatory instrument to control the movement of cash and similar instruments across its borders, the effective implementation of the above across the porous borders remain a major challenge. The Liberia Revenue Authority (LRA) remains the enforcing authority, but there is a low level of awareness and sensitization of the declaration requirement at all border entries; screening process and equipment is unavailable to almost all points of entry. Technical capacity building training of border officials to enhance the screening process is yet to be carried out across the country.

In spite of LRA officials at Roberts International Airport and Bo-Water Side registering few violations and some sanction measures, the overall measures and sanctions are very low. Based on these significant deficiencies,

Effectiveness of Customs Controls on Cash and Similar Instrument was rated **Very Low**

#### 1.2.1.7 DOMESTIC COOPERATION

Domestic cooperation among LEAs and regulatory authorities is cardinal in the fight against money laundering and terrorist financing. Domestic cooperation is robust when Country's AML stakeholders (FIU, intelligence services, financial crime investigators, prosecutors, regulators, and customs and tax authorities) meet regularly, share information, intelligence, and discuss joint initiatives. The regime is also said to be effective when there is a legal framework for joint investigations by relevant investigative units; full functional interagency cooperation committee or National AML/CFT Coordination Committee, among others.

In the case of Liberia, the country has an interagency group, which was established in 2016. It meets regularly and discusses issues that serve as impediments to the effective implementation of

the country AML/CFT regime. The country established a joint investigative team called Investigation and Prosecution Team (IPT), which carries out financial crime investigations.

Despite the existence of this domestic cooperation mechanism, internal cooperation among these authorities is low. For example, LEAs and regulators are yet to develop and sign MOUs for cooperation, which would enhance cooperation and coordination on operation levels. Also, the IPT creation is yet to be formalized by appropriate enforceable means, and it lacks adequate resources and capacity to carry out financial crime investigations. For instance, since the IPT was established, it is yet to see any conclusive investigation and indictment. Based on these significant deficiencies,

Domestic Cooperation was rated **Very Low**

#### 1.2.1.8 INTERNATIONAL COOPERATION

International cooperation among countries fosters the fight against money laundering and terrorist financing. Deficiency in this endeavor further poses money-laundering vulnerability in a country. Generally, this mechanism is effective when the country has a broad legal basis and mechanism in place for assisting, including authority under international and regional conventions, mutual legal assistance treaties, memoranda of understanding or other agreements, and reciprocity. The provision of a wide range of timely mutual legal assistance (MLA), pre-MLA assistance and informal information or intelligence, rapid sharing of evidence relating to ML investigation supports robust international cooperation.

Liberia enacted the Mutual legal Assistance in Criminal Matters Act, 2012, in 2013. Sections 9.5: authority to make and act on mutual legal assistance requests and subsection 1 to 3 address provides for international cooperation relating to ML investigation. In spite of the existence of this legal framework that supports international cooperation, the county is yet to establish an authority to coordinate MLA processes. The country is also yet to test the adequacy of this instrument by providing MLA to any country. However, a thoughtful strategic decision needs to be made to address these deficiencies in the country's international cooperation effort.

International Cooperation was rated **Medium**

### 1.2.1.9 FORMALIZATION LEVEL OF ECONOMY

Informal/unregistered economic activities pose challenges to the country effort in fighting money laundering and terrorist financing. This is further exacerbated when a country witnesses large part of its economic activities uncontrollable, as records are not kept of these activities, making it difficult for LEAs to access transactions and client information. LM prosecution, tracing of assets, among others, therefore become to impede this situation. The larger the informal economy, the lower the level of formalization of the economy which poses significant vulnerability to money laundering.

The formalization of the economy level is low when informal economic activities make a sizable contribution to the country GDP; a significant proportion of economic activities is traditionally cash-based and unrecorded. Limited legal and regulatory, ineffective laws and regulations also explain the low level of formalization of the economy.

The Liberian economy is largely cash-based and characterized by dual currency regime (transaction is legal in both Liberian and US\$). Dual currency system, especially, a high-power currency like US\$ poses significant vulnerability to ML. About 68.5 percent of economic activities are informal/unregistered and unregulated. A large part of the population is unemployed and involved in subsistence agriculture activities.

Formalization Level of Economy was rated **very low**

#### 1.2.1.9.1 LEVEL OF FINANCIAL INTEGRITY

Financial integrity in the context of this risk assessment looks at the quality of business and professional ethics and tax transparency in the country. It focuses on whether the country's tax framework provides transparency of financial matters of citizens and residents; sharing of information by the tax authorities and LEAs. Tax transparency is high if people provide comprehensive information about their income and assets to the tax authorities and such information are accessible by LEAs. False tax declaration, failure to adhere to a code of conduct, misleading financial record, lack of sanction measures statistics among others are all indications of financial integrity. A sufficient level of tax transparency makes it difficult for a criminal to evade detection of money laundering activities. In the case of Liberia, the revenue code requires tax

transparency and providing of information by taxpayers. False tax declaration, misleading financial records is prohibited by the Code and punishable by the instrument.

Despite the legal and institutional framework in place in Liberia, effective operationalization of the Code is slow. Technical capacity of tax enforcers remains the challenge. A false declaration pronounced in some cases has witnessed sanction measures.

Level of Financial Integrity was rated **Low**

#### 1.2.1.9.2 EFFECTIVENESS OF TAX ENFORCEMENT

An effective and efficient Tax enforcement regime counters money laundering and terrorist financing in a jurisdiction. This mechanism is defined concerning the enforceable means of tax law as well as tax inspection and criminal and civil litigation relating to tax compliance violations.

Tax enforcement is effective when there is a comprehensive legal framework, including the provision of adequate powers for obtaining information and an appropriate sanction regime for deterrence. Audit inspection and program free of interference, taxpayer education program and adequate resources availability and technical capacity for tax officials are some elements that underpin effective tax enforcement. In the case of Liberia, the Liberia revenue code provides the legal framework for tax administration. The instrument provides a robust sanction system. The LRA conducts regular taxpayer education on both electronic and print media. It carries out an aggressive tax inspection and audit programs.

Despite the availability of the legal instrument and other enforcement measures instituted, Liberia is yet to witness money laundering investigation and prosecution. This may be attributed to technical capacity relating to financial crime investigation involving tax offenses and a dedicated unit within the taxing authority to look into such matters. The LRA has recently attempted to bridge this gap by the creation of a tax investigation office with the specific mandate of investigating tax evasion and its predicate offenses including ML. This new approach of having a dedicated unit is best practice in most taxing authorities on the continent (for example in Nigeria, Kenya, Malaysia, Uganda) and beyond (the U.S with its Internal Revenue Service –Criminal Investigation Department). A thoughtful strategic decision needs to be made to address these deficiencies in the country’s tax enforcement effort.

Effectiveness of Tax Enforcement was rated **high**.

### **1.2.1.10 AVAILABILITY OF INDEPENDENT AUDIT**

This variable assesses whether a county has a self-governing practice. Self-governing audit practices increase financial transparency while ensuring that proper and reliable accounting records and statements are available thereby ensuring that accountable entities are less vulnerable to abuse by a criminal. It should ultimately counter money laundering and terrorist financing.

Among others, independent audit practices are effective when independent auditors/audit firms carry out audit consistent with generally accepted auditing standards (GAAs); reporting entities rotate their auditors/firms every 5-7 years; there is an audit oversight body; there is dialogue between the supervisory authority of reporting entities and the relevant audit oversight body relating to audit fines and recommendations.

In Liberia, there are series of independent auditors and audit firms. These auditors/audit firms are hired by the organization to conduct their routine audit. The auditors/firms report directly to the institution that hired them. The Liberia Institute of Certified Public Accountants (LICPA) was legislated in 2011 and serves an oversight body for accountants, auditors, audit firms and those involved in assurance activities in Liberia's public or private sector. In addition to other mandates, LICPA provides capacity building training for both public and private entities.

There are several local and international private audit firms in the Country, including Price Waterhouse Coopers, KPMG, Parker, and Associates, Gedei and Associates, TD Joseph and Associates, to name a few. There are two public independent audit agencies namely – the Internal Audit Agency (IAA), an autonomous body which was established by an Act of Legislature in September 2013, and the General Auditing Commission (GAC) which is supported not just by a statute but by the Constitution of Liberia. Both private and public institutions conduct audits using the same generally accepted auditing standards.

While the private firms and the IAA are not required by law to publish their audit reports, the GAC is mandated to report its audit findings to the National Legislature and the general public.

The Public Accounts Committee of the National Legislature hosts public sessions to review GAC's audit reports and recommends the appropriate actions to be taken by the Government for those who are culpable. External and internal auditors in the Country engage in continuous professional developments as per international requirement. The independence of auditors, especially those in the public sector is protected by various means, including annual rotation of internal auditors, the

removal of the power of auditees to directly control the auditors financially or operationally, the creation of a reporting mechanism outside of the control of the auditees, amongst others.

The LICPA coordinates regular dialogue between and amongst auditors of both private and public audit institutions. Additionally, the IAA and the GAC collaborate very closely on issues about audits. The total number of audits conducted in the Country is difficult to ascertain because there is an avenue to generate such information.

While the majority of internal and external auditors are certified fraud examiners, public accountants, internal auditors, and have an undergraduate or graduate degree, many of them lack the technical understanding of ML/TF. In spite of their independence and professionalism, this lack of knowledge could lead to them misrepresenting, under reporting or not reporting at all on ML/TF findings during audits. There is a need to increase their awareness on ML/TF and to train them on how to spot, audit and report on ML/TF.

Independent Audit was rated **Medium**.

#### **1.2.1.11 RELIABLE IDENTIFICATION INFRASTRUCTURE**

A credible and reliable identification instrument is critical to the fight against money laundering and terrorist financing. AML-regulated entities should be able to verify the identity of customers using reliable, independent source documents data or information. Fake documents and false identities hinder the ability to detect and investigate ML and trace crime proceeds. Reliable identification infrastructure is robust if AML accountable institutions can rely on the country's identification instrument, which may include a secure national identification system and reliable public information systems to verify client details.

In the case of Liberia, a reliable identification includes the national identification card, issued by National Identification Center, drivers' license issued by Ministry of Transport, the national passport issued by the Ministry of Foreign Affairs, and the voter registration card issued by the Liberia National Election Commission. These government institutions can verify any of these identification instruments. Despite the availability of identities, national identification infrastructure of the country still encounters challenges. For example, a passport is available to all citizens, but it can only be acquired by those who want to travel out of the country, and it is expensive to acquire. Drivers' license is only issued to drivers and not all citizens. The current

national identification card is yet to cover the entire country as the process just started a few months ago. However, an insightful strategic decision needs to be made to address these deficiencies in the country's identification infrastructure effort.

Reliable Identification Infrastructure was rated  
**Medium high**

#### 1.2.1.12 INDEPENDENCE INFORMATION SOURCES

Independent and reliable sources of information to determine transaction patterns of clients are crucial to the fight against money laundering and terrorist financing. LEAs and other competent authorities use this information to identify and verify client's transaction patterns and commercial history. Independent information sources are available and effective when reliable historical financial information and other information about clients are available and can easily be accessed by AML-regulated authorities.

In Liberia, provisions creating FIU and other AML-regulatory institutions required reporting entities to keep transactions information and commercial, historical information. Such information must be readily made available to these competent authorities. . For example, Section 67.6, subsection 5 of the FIU Act<sup>61</sup>, 2012 provides that FIU should require reporting entities to maintain documents and records by applicable regulation for the respective sector or profession. Other FIU's regulation requires an accountable institution to a transaction and commercial information for five (5) years following the termination of the business relationship. In spite of the existence of this provision in regulatory authority acts, most regulators are yet to enforce this provision thereby limiting their access to AML-regulated entities. This tendency hinders AML compliance investigation and enforcement actions.

Independence Information Sources was rated  
**Medium High.**

#### 1.2.1.13 ACCESS TO BENEFICIAL OWNERSHIP INFORMATION

Criminals tend to hide their beneficial ownership in corporations, trusts or similar structures during the registration process of their investments. This impedes financial crime investigation and tracing proceeds of crimes. Transparency in beneficial ownership reduces the vulnerability of ML.

<sup>61</sup> <http://www.fiuiberia.gov.lr/httpdocs/FIU%20ACT%202012.pdf>

Access to beneficial ownership information is effective when a mechanism exists where information of corporations, trusts, and similar vehicles is available and can be accessed promptly by competent authorities and AML-regulated institutions. In Liberia, the Liberia Business Registration (LBR) is tasked with the responsibility to register all business establishments. Information relating to beneficial ownership is provided by the person registering the business or corporation. However, there is no process in place to verify the information provided by the person who provided the information. Also, there is no regulation and procedure for customer due diligence relating to this matter based on these significant deficiencies.

Access to Beneficial Ownership Information is  
rated **Very Low**.

#### **1.2.1.14 FINDINGS AND CONCLUSIONS FOR VULNERABILITY ASSESSMENT**

The following constitutes major findings of the National Vulnerability Teams:

- National money Laundering vulnerability was found to be medium high, indicating that Liberia has a weak defense system to counter ML. The medium high ML vulnerability is primarily due to medium low national ML combating ability and medium high overall sector vulnerability.
- The national ML combating ability was found to be medium low, indicating that Liberia ability to counter money laundering is low.
- Primarily, the medium low national combating ability is attributed to the country overall weakness in Quality of AML Policy and Strategy; Quality of Cross-Border Control on Cash and Seminar (similar<sup>2</sup>) Instrument; Quality of Criminal Investigation; Quality of Criminal Prosecution; Quality of Adjudication; and Quality of Asset Forfeiture Framework.
- Additionally, national combating ability was found to be medium low due to secondary factors such as Quality of Custom Control on Cash and Similar Instrument; Quality of Border Control; Capacity and Resources for Financial Crime Investigation, Prosecution and Judicial Process; and Integrity and Independence of Financial Crime Investigator, among others.
- The Overall sectorial money laundering vulnerability was found to be medium high due to low ML combating in all the sectors.
- The country does not have a national AML/CFT policy and strategy.
- Across the enforcement and competent authorities, capacity and resources for financial crime intelligence, investigation, prosecution and adjudication are inadequate

- Liberia porous borders are yet to be properly regulated by LEAs, as there are a huge number of border points that are not being regulated.
- The country declaration regime is not effective.
- The country does not have a procedure to verify the information provided on Beneficiary Ownership

#### **1.2.1.15 RECOMMENDATIONS FOR VULNERABILITY ASSESSMENT**

National authority and actors should institute the following actions to address the findings of the vulnerability assessment:

- National authority should consider addressing the primary factors that contributed to the medium low national ML combating ability. Specifically, authority should
  - Develop a National AML/CFT Policy and Strategy and officially publish the instrument. The instrument should identify national committee to drive the instrument and other AML/CFT national agenda.
  - Authority should establish special “Financial Crime Investigating Task Force”, “Financial Crime Prosecuting Team”, and “Financial Crime Court” to speedily investigate, prosecute, and adjudicate financial crime cases, respectively.
  - Provide capacity and resources for Cross-Border Control on Cash and similar Instrument, Criminal Investigation, Prosecution, and Adjudication.
  - Authority should also deliver capacity and resources for Asset Forfeiture Framework.
- Authority should additionally consider mitigating the secondary factors that attributed to the medium low national ML countering ability. Authority should take tangible actions to
  - Provide capacity and resources for Custom Control on Cash and similar Instrument and Border Control.
- National authority should ensure that Liberia porous borders are properly regulated by LEAs
- National authority should put procedure in place to verify the information provided on Beneficiary Ownership.

### **1.3 BANKING SECTOR VULNERABILITY**

The Banking Sector is the largest sector in terms of balance sheet size, the nature and complexity of transactions (including international wire transfers), thus posing significant vulnerability to Money Laundering and Terrorist Financing risks.

Money laundering and terrorist financing risks in the sector arise primarily from products, services and delivery channel offered by the banks, and inadequate AML compliance personnel.

Overall Banking Sector ML/TF Vulnerability was  
rated **High** .

The Central Bank of Liberia and the Financial Intelligence Unit of Liberia (FIU) have in place a number of regulations, circulars and directives covering the full range of preventive Anti-Money Laundering and Combating Terrorist Financing (AML/CFT) measures in the sector to mitigate this risk such as KYC/CDD and record keeping. The Central Bank of Liberia has in place a relatively robust AML/CFT risk based supervision to ensure compliance but, there is a need to focus on the effectiveness of preventive measures such as ensuring the filing of STRs, enhanced due diligence based on customer risk classification and adequate customer due diligence. Beneficial owners (BOs) information needs to be more accessible.

Products, services, and delivery channel considered to pose significant vulnerability to the Banking Sector include Current Account Products, Savings Account Products, Trade Finance Services, and International Money Transfers and loan and advances.

The high-risk geographic areas include: the commercial districts of Monrovia, i.e. Water Side, Broad Street, Sinkor, Duala, Bushrod Island, Red Light (Paynesville); Ganta, Buchanan, Greenville, and Red Light, Sinkor and Bushrod are considered highly susceptible to terrorist financing. The widespread use of cash in the Liberian Banking Sector exposes the sector to significant vulnerability to money laundering risk as cash transactions are not always accompanied by records of actual sources.

In order to assess ML/TF risk profile of the banking sector, the NRA banking sector Team sent out survey questionnaires to bank officers (market players) and regulators/supervisors; conducted interviews with regulators and senior bank officers; researched the databases of the Regulation and Supervision Department of the Central Bank of Liberia and other websites duly credited in this work. Some respondents provided inaccurate data because they did not understand the questions; so, in such cases, face to face interviews were conducted to correct the data, and other cases, respondents did not provide data in time for the preparation of the report. In such case, the available data was used to make conclusion. The overall response rate to survey questionnaires from the sample in the survey was more than 85 percent.

### 1.3.1 QUALITY OF AML/CFT CONTROLS

#### 1.3.1.1 COMPREHENSIVENESS OF AML/CFT LEGAL FRAMEWORK

In the assessment of this input variable, regulations, circulars and directives issued by the Central Bank of Liberia and the Financial Intelligence Unit of Liberia were considered, and they were found to conform largely to international standards. The AML/CFT legal framework of Liberia broadly covers customers' due diligence which requires a risk-based approach as well as a requirement for the verification of beneficial ownership information of natural and legal persons; record keeping requirement of five years, enhanced due diligence for politically exposed persons provision requiring mandatory high risk classification, senior management approval and enhanced monitoring, and a provision for high risk jurisdictions.

The legal framework also encapsulates provision on customer due diligence in case of correspondent banking relationship, new technologies, and wire transfers, reliance on customer due diligence by third parties, suspicious transaction reporting, licensing, tipping off and confidentiality, internal controls, foreign branches and subsidiaries, regulation and supervision of financial institutions and supervisory powers. These wide-ranging provisions are in line not only with the FATF 40 Recommendations but also the BASEL Core Principles on banking supervision.

The degree to which the AML laws are compliant with the FATF Standards and international best practices was rated **high**. The rating indicates that there are still rooms for improvement in the AML/CFT legal framework, which includes the need for the competent authorities to issue guidance and other relevant circulars on risk assessment, required level of knowledge of AML/CFT amongst bank staff, standard for qualification and competence of AML/CFT Designated Compliance Officers.

#### 1.3.1.2 EFFECTIVENESS OF SUPERVISION PROCEDURES AND PRACTICES

The effectiveness of supervision procedures and practices over the banking sector was assessed considering a number of factors including: laws and regulations that give appropriate mandate and authority to competent authorities to conduct AML compliance supervision, supervisory framework; understanding and appreciation of money laundering risk within the sector by the regulators, sufficient number of trained staff, necessary resources to ensure AML compliance, necessary skills and up-to-date knowledge for AML compliance examinations; necessary resources to ensure AML compliance, comprehensive risk-based supervisory program that consists of offsite

and onsite components, reports, records, regular examination cycle, the use of moral suasion, the effective and impartial use of supervisory power.

The quality of supervision regarding compliance with AML Laws, regulations, circulars and directives was rated **medium** indicating the level of quality supervision based on the following justifications:

- The Central Bank of Liberia created a dedicated unit in the Regulation and Supervision Department to conduct AML/CFT supervision over all financial institutions in the country, which includes both bank, and nonbank financial institutions. The AML/CFT unit has fully adopted the risk-based approach to AML/CFT supervision through a technical assistance of the IMF, which has conducted four rounds of training on risk assessment and conducting risk-based examination. The unit periodically assesses the ML/TF risk profile of the sector, plan risk-based examination, target examination and a supervisory strategy based on the result of the risk assessment. The CBL risk-based supervision methodology, which comprises of on-going off-site surveillance and on-site examination of financial institutions, is consistent with the relevant FATF Recommendations,
- In its offsite surveillance, the unit reviews training plans, quarterly compliance activity reports, and risk self-assessment questionnaires, ML/TF internal risk assessments to inform the AML/CFT supervisory strategy, onsite examination and to ensure that banks comply with the regulatory regime.

### **1.3.1.3 MARKET PRESSURE TOWARDS ADHERENCE TO THE AML/CFT STANDARDS**

In the assessment of this variable, the following criteria were assessed: whether banks have corresponding relationship that they deemed important and that required them to comply with international AML standards if they wish to maintain these relationships and whether Bank managements are sensitive to international and national AML-related reputational risk.

The pressures originating from commercial partners such as correspondent banks toward the adherence to the AML/CFT Standards is significant, thus, this component was rated **medium**.

Banks, like their counterparts in the sub region operate 'Nostro' accounts with international financial institutions to facilitate transactions outside Liberia. Prior to establishing such relationships, international financial institutions do take enhanced due diligence or 'know-your-correspondent' measures by ensuring that Liberian banks provide prescribed data, information

and documents for review and clearance. Thus, in this due diligence process, banks complete the Wolfsburg Questionnaire and demonstrate evidence of compliance with the US PATRIOT Act, SWIFT Sanctions Screening System, and UN Sanction List, US Treasury List of Designated terrorists, terrorist financiers and other relevant sanctions systems.

In the due diligence process, banks submit operating license, description of the AML/CFT regime, description of the supervisory regime, a statement indicating that it is not a shell bank and that it does not do business with shell banks, and other related AML/CFT information.

#### **1.3.1.4 AVAILABILITY AND ENFORCEMENT OF ADMINISTRATIVE SANCTIONS**

In assessing this variable, the following criteria were considered and evaluated: whether appropriate administrative sanctions are in place for noncompliance with AML obligations, administrative sanctions are sufficient to positively influence bank management and staff behavior (such as monetary penalties, administrative actions, removal of critical staff, and suspension/withdrawal of bank licenses). In addition, the assessment evaluated the perception of bank staff whether they believe that administrative action will be initiated in case of noncompliance with AML requirements and whether there is record on previous enforcement action/s by law enforcement authorities regarding noncompliance with AML requirements within the sector. This variable is therefore rated **low** indicating the availability of administrative sanctions against persons and banks that fail to comply with AML/CFT obligations but has not been enforced.

Section 5.0 of the Amended CBL AML/CFT Regulation of 2017 authorizes the CBL to impose both administrative sanction and monetary penalties such as the removal of bank employers, directors and managers from positions in financial institutions, full or partial suspension of financial activities, revocation of license and monetary penalties up to LR\$1, 000,000.00 for noncompliance with AML/CFT obligations. Five banks have been served warning letters for various breaches of the AML/CFT Regulation; however, monetary penalty has not been imposed on banks as at the date of writing this NRA report, which may change.

#### **1.3.1.5 AML KNOWLEDGE OF BANK STAFF**

The criteria considered in the assessment of this variable included: appropriate AML training programs and material available to bank staff, training programs are designed to ensure all appropriate staff members are trained; all staff members are required to undergo ongoing training to ensure that their knowledge of AML laws; policies and procedures are appropriate and up-to-

date; Staff members have a good knowledge of and are regularly updated on domestic and transnational money laundering schemes and typologies, including those involving the misuse of the bank, its products and services, and specialized knowledge and skills of its staff; Staff members are aware of AML compliance, reporting procedures, and obligations and Staff members understand the legal consequences of AML compliance breaches.

In view of the criteria considered above, the variable **AML Knowledge of bank staff** was rated **medium**. AML knowledge of bank staff has been on the increase over the last three years since AML/CFT examination of banks began. Some banks made available AML/CFT training programs on staff portals, whilst, others granted staff access to AML/CFT materials stored on entity's network. However, there were instances where staff could not access training materials due to prolonged breakdown of internet connectivity in the case of the materials stored on portals and lack of network access and computers in the case of materials stored on entity's network.

Banks have in place regular AML/CFT trainings for all staff especially for frontline staff including customer service personnel, marketing agents, wire transfer/remittance staff, internal audit/control staff, tellers, and AML/CFT compliance staff amongst others. A review of training material showed that material was relevant as training covered areas such as money laundering 'red flags' and suspicious transactions, AML regulations and offences, Record keeping and retention and Customer Due Diligence procedures.

However, tailored trainings including the use of typologies for specific products and channels are yet to be conducted by banks. Banks have made it mandatory for staff to attend AML/CFT trainings. Some banks have included knowledge of AML/CFT as part of annual appraisal and the basis for promotion. However, there was no recorded case where staff who failed to attend compulsory AML/CFT trainings were penalized. From time to time, both the CBL and FIU meet with compliance officers and other staff to create awareness and to train staff on ML/TF detection and prevention mechanism and data gathering. Bank staff do understand reporting procedures including reporting suspicious activities to compliance officers and given the training conducted by banks for staff, staff do understand the legal consequences of AML compliance breaches.

#### **1.3.1.6 INTEGRITY OF BANKS' STAFF**

The criteria used to assess this variable include: whether banks generally regard their staff members as secured from corruption by criminals; the incidence of integrity failure (e.g. negligent or "willful blindness" to suspicious transactions) involving the bank staff is low; whether there are appropriate

mechanisms in place to protect bank staff against negative consequences resulting from reporting STR, or other actions complying with AML obligations and fraud reports involving bank staff.

Banks do have a thorough recruitment policy and procedure in place where background checks are done by independent individuals/entities with the relevant expertise, a criminal background check is done with the Liberian National Police (LNP) as evidenced by Police Clearance issued on behalf of each prospective employees.

In addition, the Central Bank of Liberia requires that banks submit names of all prospective employees of senior management ranking for background check to establish their integrity. For this purpose, before a staff is hired, the CBL should present a no objection. Banks also have adopted whistle blowing policy that protects would-be whistle blowers from negative consequences in the event of reporting suspicious activities/transactions. Reported fraud cases involving bank staff is low.

The integrity of banks staff is rated  
**Medium high**

### **1.3.1.7 EFFECTIVENESS OF COMPLIANCE FUNCTION (ORGANIZATION) VARIABLE**

This variable assesses whether banks have an effective compliance function that is comprehensive, risk-based, and well resourced with an independent AML compliance function. In assessing this variable, the following criteria were evaluated: does the bank have internal compliance programs that are commensurate to the level of risk, taking into account factors such as the volume and nature of the products provided, the client base profiles, the transaction patterns, and the cross-border nature of transactions; have banks appointed a sufficiently resourced and independent AML compliance officer at a senior management level, do banks take disciplinary actions against their staff in cases of breaches of compliance policy, and do they perform internal and/or external AML audits.

The extent to which the Liberian banking sector has an effective compliance function/organization was rated **medium**. Of the nine banks in the country, at least seven have an AML/CFT Designated Compliance Officer at senior management level whilst the others have designated AML/CFT Compliance officers but have not obtained the required senior management ranking at the time of writing this NRA report. However, the situation is mitigated by cascading the role of the group compliance function to the subsidiary where the other two banks are subsidiaries of parents with group AML/CFT Designated compliance Officers.

### 1.3.1.8 AVAILABILITY OF RELIABLE IDENTIFICATION INFRASTRUCTURE

This variable assesses the identification infrastructure of the regime and whether information is available to AML-regulated institutions to identify and verify the identity of clients. The following criteria were used to assess this variable: is there a secured national identification system with government-issued identity documents, whether issued by the national or a local authority, and/or and is there a comprehensive and reliable public information systems that assist in the verification of details of clients' details.

The extent to which there is the availability of reliable identification infrastructure was rated **medium low**. There are secured national identification systems such as the Passport, driver license, the voters' roll of the National Election Commission, the social security IDs and banks are using these IDs for banking transactions with clients. However, in this identification infrastructure, only the identity of voters can be reliably accessed and verified via a web-based identification system. Many banks used voter card for banking transaction including account opening.

### 1.3.1.9 AVAILABILITY OF INDEPENDENT INFORMATION SOURCES

This variable assesses the availability of independent and reliable sources of information to determine transaction patterns of clients. Whether there exist independent and reliable information sources, and whether they are available and can easily be accessed by AML-regulated institutions, and whether there are comprehensive and reliable historical financial information and other information about clients that can be used to identify or verify clients' transactional patterns and commercial history.

This variable is rated **medium low**. There exist independent and reliable sources of information that can be used to clearly determine transaction patterns of clients such as the Credit Reference System hosted by the Central Bank of Liberia, which is being upgraded to a web-based system available via internet connectivity. Now, banks use the credit reference system to verify credit history of clients but not for AML/CFT KYC and due diligence process.

Additionally, the Collateral Registry housed at the Central of Liberia has valuable customers data relative to identity documentation, which is being used by banks to verify collateral/pledged securities and identities of clients in loan arrangements, however, it was noted that the banks are not using this system for KYC purpose.

The Liberian Business Registry (LBR) and the Liberian Chamber of Commerce (LCC) have valuable data on entities but banks are not able to easily obtain needed data or verify customer's identity using the databases of these entities because they are hosted on the world wide web, in one instance, and in another instance, staff of these institutions appear to consider the provision of requested as added burden to their workload. Some banks reported requesting information from these institutions (LCC & LBR) which never came.

#### **1.3.1.10 AVAILABILITY AND ACCESS TO BENEFICIAL OWNERSHIP INFORMATION**

This variable assesses whether it is easy for criminals to hide their beneficial ownership in corporations, trusts or similar structures registered in or administered from within the country. The criteria evaluated in the assessment of this variable include: whether there is transparency relating to beneficial interests in corporations, trusts or similar entities is in place.; is there a comprehensive information on the structure, management, control, and beneficial ownership in corporations, trusts, and similar vehicles,; can these data be readily obtained and be accessed in a timely manner by competent authorities and available to AML-regulated institutions and businesses and professions to facilitate their Customer Due Diligence requirements?

In view of the above-mentioned assessed parameters, this variable is rated **medium low**. There exists a comprehensive, verifiable and authentic information on the structure, management, control and beneficial owner at the Liberian Business Registry and the Liberian Chamber of Commerce as already mentioned earlier, however, banks have reported that they do not have access to this information in a timely manner to facilitate customer due diligence requirements.

#### **1.3.1.11 EFFECTIVENESS OF SUSPICIOUS ACTIVITY MONITORING AND REPORTING**

This variable assesses whether banks have effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures. The criteria considered in the evaluation of this variable include:

Whether banks have information systems that enable and facilitate the monitoring of transactions of clients against their profiles; transactional records are available in a format that facilitates AML screening and monitoring; the systems support banks in performing effective PEP screenings; assist bank staff to effectively identify and record all complex, unusual large transactions and assist bank staff to effectively identify and report suspicious transactions.

This variable is assessed as **Medium High**. Banks have information systems that housed both physical and electronic data on all customers, which are stored, in the case of electronic data, in secured servers located at head offices whilst backups are securely stored at Disaster Recovery Sites (DRS) and regularly backed up/updated. Physical files of customers are securely kept in cabinets stored at various branches in the banks' networks. Banks have elaborated and detailed account-opening package that is used at account opening to gather detail information on each client before onboarding. Relevant clients' data that support KYC and facilitate ongoing monitoring are then on boarded onto the bank's core banking platform, in the case of some banks, whilst other banks upload such data unto another software that interfaces with the core-banking platform.

#### **1.3.1.12 AVAILABILITY AND ENFORCEMENT OF CRIMINAL SANCTIONS**

This variable assesses whether a country has a range of effective, proportionate, and dissuasive criminal sanctions, which are applicable in cases of non-compliance with AML laws and regulations.

The following criteria were evaluated to assess the availability of criminal sanction, on one hand: whether appropriate criminal sanctions are in place for noncompliance with AML obligations, Persons in the banking industry regard the criminal sanctions regime as sufficiently dissuasive to positively influence individual behavior patterns, whether criminal sanctions are also applicable for appropriate ancillary offenses to ML offenses.

And, on the other hand, the following criteria were evaluated to assess the enforcement of criminal sanctions: whether most persons working within the banking sector believe that criminal enforcement action would be initiated in cases of noncompliance with AML requirements, whether there is a record of convictions, and criminal enforcement actions that have been taken over the past years by law enforcement authorities regarding noncompliance with AML requirements in the sector, the number of investigations, prosecutions, and convictions, as well as other available evidence on enforcement actions, criminal enforcement against banks and their staff in regards to other financial crimes (such as fraud).

In view of the criteria evaluated, this variable was rated **high**. There exists criminal sanctions for money laundering and ancillary offenses as provided for in the Fraud Act of 2012, An Act to Amend the Criminal Procedure Law, Title 2 of the Liberian Codes of Laws Revised to provide for

Special Criminal Procedures for Offenses involving Terrorist Acts of 2017, Anti-Money Laundering and Terrorist Financing Act of 2012 which defined twenty-one predicate offenses to money laundering. Many in the industry believe that the available criminal sanctions are sufficiently dissuasive to influence behavior pattern in the industry.

### **1.3.1.13 AVAILABILITY AND EFFECTIVENESS OF ENTRY CONTROLS**

This variable assesses the availability and effectiveness of entry controls (including licensing, registration), or other forms of authorization to operate. In evaluating this component, the following criteria were considered: whether the licensing body is clearly identified within the laws and regulations; whether it possesses good understanding and appreciation for ML risks of the banking sector; effectively carries out its licensing and entry control duties, has a clear and comprehensive framework for the licensing and registration requirements in the sector; does entry control include: – A fit and proper test designed to prevent criminals or their associates from being granted a banking license, or having a significant controlling interest in a bank, or holding a significant managerial position; appropriate educational and professional certification requirements for key directors and senior management; a requirement for all licensees to have adequate AML compliance controls in place, including compliance manuals and the appointment of well-qualified internal controls/compliance staff; adequate resources to ensure quality implementation of entry controls for banks, including a sufficient number of well-trained and highly skilled personnel to screen, vet, and approve all applications and supporting documentations.

In view of the evaluation of factors considered in the assessment of this variable, this variable is rated as **high**. Both the New Financial Institution Act of 1999 and the Act that created the Central Bank of Liberia, the CBL Act 1999 clearly identified the Central Bank of Liberia as the licensing authority for the financial institutions and set a comprehensive framework for entry controls for all financial institutions, the Corporate Governance Regulation sets requirements for directors, competence and qualification and set standard for minimum configuration and board subcommittees. In addition, the CBL AML/CFT Regulation sets requirements for AML compliance controls, board and senior management responsibility and the requirements for risk assessment.

### **1.3.1.14 MONEY LAUNDERING/TERRORIST FINANCING ASSESSMENT OF PRODUCTS/SERVICES**

The results of selected products/services and delivery channels are provided below. The vulnerability scores of the following selected products/services and delivery channels with reasons accounting for the score are presented below based on data analyzed including responses to questionnaires, and knowledge and experience of the working group.

The assessment showed that **Current Account and International Wire Transfer** product was the product with the highest vulnerability rate **Medium High**, because the products are widely used by both entities and individuals to make large cash; Current Account product is also used by banks to grant loans and advances and clients also make their loans repayments through this account. The second most vulnerable product, international wire transfers, rated **medium high**, has high average transaction size and cash activity coupled with the fact that the client base profile of the product include clients such as PEPs, high net worth individuals and high-risk businesses.

The third most vulnerable product is Savings Account Product, rated **medium high**, used by most bank clients including high net worth clients. The following are the scores/ratings of selected product/service and delivery channels along with justifications for the scores/ratings assigned:

#### **1.3.1.14.1 INTERNET BANKING**

This product has vulnerability rated **Low**.

The volume and average transaction size of this product are low. However, clients from offshore jurisdictions, PEPs, and high net worth individuals present moderate ML/TF risk in terms of client profile; there are features of the product that facilitate domestic money transfers but not international transfers. There is no feature of the product that allows anonymous or omnibus transactions, the availability of non-face-to-face feature in the product is limited and there is no deposit feature. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.2 INTERNATIONAL MONEY TRANSFER**

This product vulnerability was rated **Medium High**. The average transaction size, frequency of transactions and cash activity associated with the product are high coupled with the fact that the client base profile of the product include clients such as PEPs, high net worth individuals and high risk businesses, these factors together expose the product to high ML/TF risks. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.3 ELECTRONIC BANKING**

This product vulnerability was rated **medium low**. The average transaction size of the product and the level of cash activity associated with the product are relatively low, the product is in its infancy in the financial sector; the product features lend itself to non-face-face and omnibus uses which expose it to ML/TF risks,; however, the product does not have investment/deposit features at the moment, and no international transfer transactions; even though, entities use the product, but it is predominantly used by the retail clientele of banks. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.4 CURRENT ACCOUNTS**

This product vulnerability was rated **medium high**. The average transaction size, level of cash associated with the product and frequencies of transfers are high; the client base profile of the product consists of entities and individuals (PEPs and high risk businesses) who make large cash transactions including international wire transfers, the product is also used by banks to grant loans and advances and clients also make their loans repayments through this account. The product does not have an investment feature, nor, an omnibus or non-face-face feature. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.5 SAVINGS ACCOUNTS**

This product vulnerability was rated **medium**. The average transaction size and volumes, level of cash activity associated with the product are medium; the client base profile consists more of retail clients including PEPs, high net worth individuals and a small number of clients from offshore jurisdictions, there are no Non-face-to-face and omnibus features present in the product, however, there is a deposit feature.

#### **1.3.1.14.6 FIXED DEPOSITS**

This product was rated **medium**. The average transaction size and volume are relatively low, level of cash activity associated with the product is high; generally, there are low savings in the economy; the product has prominent investment feature and limited international wire transfers. The client base profile of the product consists of PEPs and High net worth individuals with no non-face-face and omnibus features. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.7 CASH COLLECTION SERVICES**

This product was rated **medium low**. The average transaction size and volumes are low given the size of the economy. The service as provided by banks is rendered primarily to businesses with high daily cash sales, the product does not have international wire transfers, deposit/investment, non-face-face or omnibus features. The client base profile of the product is mainly corporate and medium size businesses. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.8 WEALTH MANAGEMENT/PRIVATE BANKING**

This product was rated **low**. The product exists more in theory than practice, because the AML controls, policies, and procedures are ineffective. Where the product ought to be a service exclusively to clients of the high end of the income bracket, the client base profile of the product comprised mainly of retail customers, not necessarily of the high income bracket, but, obviously, PEPs and high net worth customers were included. Even though, the features of the product make it inherently susceptible to money laundering because the client base profile should consist of high risk individuals such as PEPs (both foreign and domestic), Product has low transaction volumes and average transaction size. There is a general AML/CFT measure in place to mitigate the inherent vulnerability. CBL has control measures in place but the effectiveness of implementation is weak.

#### **1.3.1.14.9 TREASURY INSTRUMENTS**

This product was rated **medium**. The product consists of government and Central Bank of Liberia treasury bills, which are mainly investment products. The volume and average transaction size are low; the client base profile is made mainly corporate clients with excess funds. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### **1.3.1.14.10 INVESTMENT ACCOUNTS**

This product **medium low**. The volume and average transaction size are low given the size and growth trajectory of the economy; the client base profile comprised of both corporate and retail clients, obviously including PEPs and high net worth customers that exposes the product to Money laundering risk; level of cash activity associated with the product is high but there is no non-face-face or omnibus feature with limited international wire transfer transactions. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### 1.3.1.14.11 TRADE FINANCE SERVICES

This product was rated **medium high**. The transaction volumes and average transaction size are relatively high given that the economy is largely import driven. Banks' income statements showed a significant contribution to overall business. The client base profile comprised primarily of corporate customers, some of which are from high-risk jurisdictions; and some owners of corporate entities are PEPs, and high net worth individuals with significant holdings (controlling interest) which render the product inherently vulnerable to money laundering risk. The product has no investment feature and level of cash activity associated with the product is high; it has prominent deposit and International money transfer features and very high frequency of international transfers. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### 1.3.1.14.12 LOANS AND ADVANCES

This product was rated **medium**. The transaction volumes and average transaction size are high. The product drives the overall profitability of the banking sector; the client base profile of the product consists of retail and corporate clients, obviously including PEPs, high network individuals and high risk businesses which exposes the product to high level of ML vulnerability because high risk businesses and PEPs could potentially use ill-gotten wealth to finance their loan repayment schemes; the level of cash activity associated with the product is significantly high since debtors repay loans and advances largely using cash deposits in their current accounts, the product has an embedded money transfer feature;; however, there is no non-face-face or omnibus feature. There is a general AML/CFT measure in place to mitigate the inherent vulnerability.

#### 1.3.1.15 CONCLUSIONS

The overall Assessment of the Banking Sector vulnerability to Money Laundering and Terrorist Financing risks as assessed is **medium high**.

The assessment concluded that there are critical deficiencies in the National AML/CFT Regime over the banking sector given the low ratings in critical areas as highlighted (in light and dark orange color) in the figure 1, which includes the Quality of CDD Framework, availability of independent information sources and availability and access to beneficial ownership. Several other controls including the quality of bank's operations, compliance of bank's staff, effectiveness of bank's system; AML Knowledge of bank's staff and the availability and enforcement of administrative sanction which were rated **medium** remain area of concern. The figure below

(Figure 1: Vulnerability Map) is an output (assessment result) of the World Bank Excel Risk Assessment Tool based on ratings of input variables.

Twelve products/services of the banking sector were assessed and three were found to have medium high inherent and final vulnerability to ML risk, i.e. INTERNATIONAL MONEY TRANSFER, CURRENT ACCOUNTS, and TRADE FINANCE SERVICES, whilst, Wealth Management/Private Banking exhibited higher level of Medium Risk as compared to other products/channels that fall within the same medium risk range. Figure 2 (PRODUCT/SERVICE VULNERABILITY) is a product/service vulnerability map that displays the level of product/channel vulnerability as generated by the Excel Risk Assessment Tool based on data gathered across the banking industry.

### **Name of Product/Channel**

1. internet banking
2. international money transfer
3. electronic banking
4. current accounts
5. savings accounts
6. fixed deposits
7. cash collection services
8. wealth management/private banking
9. treasury instruments
10. investment accounts
11. trade finance services
12. loans and advances

### **1.3.1.16 RECOMMENDATION**

In view of the foregoing findings and conclusions , the following recommendations are proffered:

1. Supervisors and bank management should work together in setting minimum AML knowledge/training requirements for all bank staff, specific requirement for AML staff and qualification standard for AML Compliance Officers and that AML knowledge form part of staff annual appraiser and promotion. The CBL must have in place high quality AML/CFT compliance inspection systems to identify & penalize non-compliance. Relevant law must make the requirement that reporting entities conduct internal audits on

the quality of their internal AML/CFT control systems and provide those reports to supervisory authorities as part of the off-site inspection process.

2. Supervisory authority should develop a comprehensive sanction regime and ensure enforcement.... For example: (i) Adoption by CBL of formal internal systems/processes for determining the type of appropriate administrative sanctions corresponding to AML/CFT compliance violations – particularly level of monetary penalties to be imposed based on level of seriousness of violation; and (ii) adoption by CBL of formal internal systems/processes for collection, accounting & auditing of monetary penalties collected due to compliance sanctions – to ensure the penalties collected are properly processed, accounted for and to ensure they are used for appropriate purposes.
3. National authority should work with the Liberian business registry and other institutions at ensuring that beneficial owner data is accessible.
4. Supervisors and bank management should ensure mandatory compliance with REGULATION NO. CBL/SD/16/2001 Concerning Transfer of Foreign Currency and all legally enforceable means that all wire transfers are monitored, and
5. Supervisors and bank management should ensure that activities qualifying as STR be reported promptly based on the mandatory provisions in the FIU Act 2012 section on STR reporting and the STR regulation for FIs.
6. (i) risk assessments reports by FIs (on ML/TF risks in their business areas) to ensure these assessments are uniformly assessed; and (ii) the quality of internal audit reports by FIs that assess the quality & effectiveness of all internal AML/CFT control systems.
7. Further tailoring by CBL of AML/CFT compliance obligations for FIs that are more specifically tailored to the risk-based approach.
8. Adoption by CBL of formal procedures for post-inspection follow up to ensure that deficiencies identified in compliance inspections are systematically tracked to ensure they are effectively remedied in a timely manner.

#### **1.4 SECURITIES SECTOR VULNERABILITY**

The Securities Sector is a small sector in the Republic of Liberia. This is primarily due to limited products being offered within the sector in Liberia. Section 3 of the Securities Market Act of 2016 establishes the Securities and Exchange Commission for the purpose of regulating the Securities Sector in Liberia. However, the Securities Exchange Commission has not been established, thus,

the Central Bank of Liberia presently regulates activities within the Securities Sector.<sup>62</sup> Presently, the only market players within the Securities Sector are the nine (9) commercial banks in Liberia.

Overall ML/TF Vulnerability Securities Sector  
was rated **Medium**.

#### **1.4.1 MONEY LAUNDERING AND TERRORIST FINANCING RISK RATINGS**

##### **1.4.1.1 COMPREHENSIVENESS OF AML/CFT LEGAL FRAMEWORK**

In assessing this input variable, the team inquired from respondents as to whether anti-money laundering laws, regulations, and circulars were available, and whether they covered customer due diligence and provision of services to politically exposed persons. In response,, all of the respondents informed the team that the Anti-Money Laundering and countering the financing of terrorism Regulations for Financial Institutions, which the securities sector falls under has provisions that cover record keeping requirements, customer due diligence, enhanced due diligence, enhanced due diligence in the provision of financial services to politically exposed persons, and the verification of beneficial ownership information. Furthermore, the legal and regulatory framework has provisions in place for suspicious transactions reporting, provisions against tipping off, confidentiality requirements, and internal control systems and procedures. These are all in line with the FATF 40 Recommendations.

Due to these AML/CFT measures that have been put in place, this input variable was rated **high**, which indicates there is a legal and regulatory framework in place. Some sections of the Securities Market Act need amendment to conform to current realities, specific Regulations for the sector needs to be issued, and there is a need for the establishment of the Securities Exchange Commission.

##### **1.4.1.2 EFFECTIVENESS OF SUPERVISION PROCEDURES AND PRACTICES**

Assessment of supervision procedures and practices for the Securities sector was based on a thorough look at the various laws, regulations, and circulars that empowers supervisory bodies and regulators to carry out AML/CFT supervision activities. Due to the fact that the nine (9) commercial banks are the only entities engaged in the provision of securities related products, there are many supervisory measures in place to ensure that AML/CFT obligations are adhered

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<sup>62</sup> Securities Market Act,2016

to. Some of those measures are AML/CFT examinations, offsite and onsite inspections, regular inspection cycle, measures for record keeping compliance, etc. Furthermore, there is a unit at the Central Bank of Liberia that strictly carries out AML/CFT supervision of all bank and non-bank financial institutions. The unit also organizes workshops and seminars to sensitize AML/CFT compliance officers and relevant staff of banks on integrity issues and evolving ML/TF trends. Due to the supervisory procedures and practices in place, this input variable was rated **Medium High**, which means measures are in place for supervision.

#### **1.4.1.3 AVAILABILITY AND ENFORCEMENT OF ADMINISTRATIVE SANCTIONS**

While assessing this variable, the team took into consideration as to whether there are administrative sanctions in place when AML/CFT obligations are not adhered to. Furthermore, the team also considered whether those sanctions are dissuasive enough to prevent further violations. The presence of monetary penalties, measures for removal of critical staff, and suspension and withdrawal of bank licenses were taken into consideration.

Furthermore, the assessment requested firms to state whether they believed that administrative sanctions could be initiated in the event of noncompliance with AML/CFT requirements and whether there were records on previous enforcement actions by supervisory authorities regarding noncompliance with AML requirements within the Securities sector.

The AML/CFT Regulation for Financial institutions, as amended in 2017, Section 5.0 mandates the CBL to impose both administrative sanctions, such as the removal of bank employees, directors and managers from positions in financial institutions, full or partial suspension of financial activities, revocation of license and monetary penalties of up to LR\$1, 000,000 (one million Liberian dollars) for noncompliance with AML/CFT obligations.

However, there has not been any administrative sanction placed on an entity within the Securities Sector for violating AML/CFT obligations. Thus, due to the above stated reasons, this input variable was rated **Medium High**, meaning there are administrative sanctions in place. However, more measures are to be put in place for enforcement.

#### **1.4.1.4 AVAILABILITY AND EFFECTIVENESS OF ENTRY CONTROLS**

The team assessed this variable by the availability and effectiveness of entry controls that include licensing, registration, and any other forms of authorization to operate. Furthermore, the team

looked at whether the licensing body was clearly defined by law and had set requirements for granting licenses.

Section 27 of the Securities Market Act of 2016 grants the Security Exchange Commission the power to license entities operating in the Sector. Furthermore, a fit and proper test is also carried out to prevent criminals from obtaining licenses to operate in the sector. However, since the Securities Exchange Commission has not been established, the Central Bank of Liberia relies on its powers enshrined in the Act creating the Central Bank and the New Financial Institutions Act that empowers the CBL to grant licenses to financial institutions. The Act has in place a comprehensive framework for entry controls for all financial institutions. The team rated this input at **High**, which shows that there are some measures in place for entry into the sector.

#### **1.4.1.5 INTEGRITY OF STAFF IN SECURITIES FIRMS**

The team assessed this variable by looking at whether or not firms operating in the Securities Sector carry out checks to ensure staff are not susceptible to criminal influence or lack integrity. Furthermore, the team looked at whether staff are capable of complying with which AML/CFT obligations. Bans are the entities involved in Securities Market transactions, thus, there are high levels of integrity amongst staff. There are strong recruitment policies in place, with prospective employees undergoing background checks and obtaining police clearance to show they have not committed criminal offenses. The names of all prospective senior management staff are sent to the CBL to help establish their integrity. Cases of fraudulent acts at banks are not very prevalent. The team rated this variable **Medium**, which means there is integrity amongst staff but more needs to be done during verification checks.

#### **1.4.1.6 AML KNOWLEDGE OF STAFF**

While assessing this variable, the team looked at whether or not there were adequate training materials on AML/CFT issues. Furthermore, the team checked to ensure if the programs were geared towards training the appropriate staff and the staff had adequate knowledge on AML/CFT policies and procedures. The assessment showed that AML/CFT knowledge for staff in the Securities Sector has increased due to increased trainings on money laundering and suspicious activities. The trainings have been relevant in that they are tailored towards specific actions, thus giving staff skills to detect money laundering and its associated activities. The team rated this variable **Medium High**, which shows there is AML/CFT knowledge amongst staff due to increased trainings. However, said trainings have not been specifically tied to Securities transactions.

#### **1.4.1.7 EFFECTIVENESS OF COMPLIANCE FUNCTION**

To assess this variable, inquiries were based on whether or not the firms have internal compliance programs that commensurate with the level of risks within the sector. Furthermore, the team also looked at whether or not the firms have appointed an independent AML Compliance officer at a senior management level.

Of the nine (9) respondents, seven (7) have an AML/CFT Designated Compliance Officer at senior management level whilst the others have designated AML/CFT Compliance officers but have not attained the required senior management levels. However, the CBL is engaged with these institutions to correct these deficiencies within a specified timeframe. Firms in the industry have Compliance Sections with a written AML/CFT Compliance program in place. Two (2) of the firms indicated that they have begun the process of procuring new core software with AML/CFT monitoring capabilities and functionalities. Due to the above stated reasons, the team rated this variable **Medium High**, which shows that the Compliance functions at firms in the Sector are effective although there is a need for further improvement.

#### **1.4.1.8 EFFECTIVENESS OF SUSPICIOUS ACTIVITY MONITORING AND REPORTING**

This variable assesses whether firms have effective and appropriate systems for suspicious activity monitoring and reporting to support their AML policies and procedures. During the evaluation of this variable, the team requested from respondents as to whether or not banks have information technology systems that enable and facilitate the monitoring of transactions of clients and whether or not the systems support the firms to record all complex, unusual large transactions and assist staff to effectively identify and report suspicious transactions. All of the respondents said yes.

There are Regulations for Suspicious Transactions Reporting for financial institutions, which firms in the Securities sector must adhere to. Furthermore, six of the nine respondents have monitoring software that facilitates identifying unusual large transactions based on predetermined scenarios set within the software. Alerts are generated based on these predetermined scenarios which are then investigated by AML/CFT Compliance officers and where there are 'reasonable' grounds for suspicions, STRs are filed to the FIU. However, monitoring is low. The firms do not monitor clients' accounts periodically except there are ongoing transactions. Furthermore, the sources of funding are also not monitored. Based on these factors, the team rated this variable **Low**, which means that suspicious transaction monitoring is low, thus rendering the process not very effective.

#### **1.4.1.9 AVAILABILITY & ACCESS TO BENEFICIAL OWNERSHIP INFORMATION**

To assess this variable, the team looked at whether or not it is easy to access beneficial ownership information based on the structures in place and whether the data is readily available to be assessed by regulators and competent authorities.

Although the Liberia Business Registry is responsible for the registration and storage of all ownership information, obtaining beneficial ownership information is difficult for firms in the sector. In that light, the team rated this variable at **Low**, which means that although some information is available, obtaining and assessing same is difficult.

#### **1.4.1.10 LEVEL OF MARKET PRESSURE TO MEET AML STANDARDS**

Though the Securities Market in Liberia is small, pressure to meet AML/CFT Standards is high. Firms are cognizant about AML/CFT credibility issues, thus, there is market pressure to meet AML/CFT Standards. Firms must ensure that customer due diligence, enhanced due diligence, and all other AML/CFT procedures are all in place. A firm that does not live up to those practices will definitely have itself lagging behind because customers will move their business activities to firms that are credible. This variable was rated **Medium**, which means firms are under pressure to abide by AML/CFT Standards.

#### **1.4.1.11 AVAILABILITY OF RELIABLE IDENTIFICATION INFRASTRUCTURE**

To assess this variable, the team inquired from respondents as to whether or not there were provisions in place for the identification of customers to fulfill AML/CFT obligations. The team looked at the availability of identity documents and if it were mandatory that said documents are produced when performing financial services for customers.

The team discovered that before commencement of business activities, identity documents are requested. A customer must produce a passport, driver license, or voter's cards as part of "know your customer (KYC)" provisions enshrined in the AML Regulations for Financial Institutions. The firms also carried out their own "know your customer" procedures according to their standard operating procedures. Voter cards were the most reliable due to the fact that said information is stored at another government entity and background checks can be carried out to authenticate same. However, the respondents noted that accessing the data immediately and immediately for client verification purposes is impossible as government agencies do not release said information to private entities.

The Liberia Revenue Authority also has identification procedures in place which include taxpayers data that has a unique taxpayer identification number(TIN).However, though this data is reliable, it is not easily available to firms in the Securities Sector for client verification procedures. Thus, the team rated this variable **Medium**, which indicates that although there are reliable identification infrastructures in place, said information is not readily accessible.

#### **1.4.1.12 AVAILABILITY OF INDEPENDENT INFORMATION SOURCES**

To assess this variable, the team inquired from respondents as to whether or not there were independent sources available for customer's identity verification. The team found out that said sources were limited. The Liberia Chamber of Commerce, an independent body that also has customer identity information, could not release said information to firms due to privacy issues. Furthermore, firms have information about customers but due to competition amongst themselves and privacy issues, the firms in the sector do not share information amongst themselves. In that light, the team rated this variable **Medium Low**, which means that the availability of sources is limited.

#### **1.4.2 MONEY LAUNDERING AND TERRORIST FINANCING ASSESSMENT OF PRODUCTS**

There are only three (3) products being offered by firms operating in this sector. The products are treasury bills, treasury bonds, and CBL Bills. Money laundering and terrorist financing risk Assessment associated with the products revealed the following:

TREASURY BILLS- a treasury bill is a short-dated government security, yielding no interest but issued at a discount on its redemption price<sup>63</sup>. Treasury bills are government issued securities, thus, with the AML Regulations that are currently in place, the possibility of using Treasury bills for money laundering is slim.

Furthermore, it is difficult to also use same for terrorist financing because it takes time for Treasury bills to reach maturity dates, which range from few months to over a year. Again, this product is only held by the commercial banks. Thus, the team rated the money laundering vulnerability of this product **Low**.

TREASURY BONDS - A **treasury bond** is a bond or debt security issued by the Government of Liberia with a maturity date of over five years. Treasury bonds make interest payments

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<sup>63</sup> *Investopedia, the Online Investment Magazine*

semiannually after maturity, and the income received is taxed. Treasury bonds are known in the market as primarily risk-free; they are issued with very little risk of default.

It is also difficult to use treasury bills for money laundering and terrorist financing purposes because it is a government issued security with a prolonged period of maturity. Furthermore, it is only held by the banks. Thus, the team rated the money laundering vulnerability of this product **Low**.

CBL BILLS- are instruments used by the Central Bank of Liberia to manage excess liquidity in the banking sector<sup>64</sup>. Only commercial banks are eligible to bid for the Central Bank Bills (CBL Bills). However, non-bank investors may participate through the commercial banks.

Hence, it is possible that this product could be used for money laundering and terrorist financing purposes due to the fact that non-bank investors are allowed to participate in the acquisition of same. It is possible that funds acquired from purchasing this securities market product could be used for money laundering purposes. Thus, the team rated the money laundering vulnerability of this product **Medium**.

#### **1.4.3 CONCLUSION OF THE SECURITY SECTOR VULNERABILITY ASSESSMENT**

The Securities Sector presently has limited products within the sector, thus, the chances of money laundering and terrorist financing using said products is low due to the following:

- That the Sector has a legal and regulatory framework in place to prevent money laundering and terrorist financing activities. Various laws like the Securities Market Act, the AML Regulations for Financial Institutions, and Regulations for Suspicious Transactions Reporting, Cash Transactions Reporting, and Regulations on Enhanced Due Diligence in the Provision of Financial Services are in place. All of these serve as checkpoints that will prevent money-laundering activities in the sector.
- That the Sector has a compliance program, with Compliance Officers at the various firms to ensure that AML/CFT obligations are adhered to by firms. Most of the firms have these officers at senior management levels. However, their functions cut across other activities thus leading to Compliance Officers having extra duties and responsibilities.
- The Sector has a supervision program in place, where supervisory bodies undertake both offsite and on-site supervision at the firms. One of the respondents even stated that a

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<sup>64</sup> CBL Bills and Notes Brochure, CBL Website

supervision exercise took place at the firm in August of 2018. However, the supervision regime has to be more robust in their activities.

- That staff of the firms in the sector have undergone AML/CFT trainings on methods of preventing money laundering and terrorist financing activities within the sector. All of the respondents stated that their staff had received some level of AML/CFT trainings. However, said trainings were not frequent.
- That one of the products being offered, specifically CBL Bills, is vulnerable to money laundering and terrorist financing activities.
- That the firms have not carried out AML/CFT audit of their Compliance Program by a trained AML/CFT expert, thus, they could not grade themselves as to their levels of effectiveness and locate the gaps within their operations.
- All of the respondents stated that they did not have knowledge about administrative sanctions against their firms.

#### **1.4.4 RECOMMENDATION**

Based on the following, the team has decided to recommend the below points after its assessment to strengthen AML/CFT controls of the Securities Sector.

- The Security Market Act of 2016 needs to be amended to put in place AML/CFT measures that are sector specific. Presently, the sector relies on the AML/CFT Regulations for Financial Institutions for reference.
- That industry specific Regulations be issued as the operational arm of the Securities Market Act of 2016.
- The firms need to work with the CBL and FIU to carry out more training of their staff on issues relating to money laundering and terrorist financing in securities related transactions.
- The management of the banks must ensure that Compliance Officers remain at a managerial level to maintain independence when carrying out their duties.
- Firms in the sector must have access to reliable client identity information in a timely manner for verification purposes before opening accounts to effect transactions.
- That firms in the Sector increase monitoring of accounts that are connected to politically exposed persons (PEPs).
- That a risk assessment of the CBL Bills is carried out to understand the possibilities of said product being used for money laundering or terrorist financing activities.

- That a risk assessment of the entire sector is undertaken to draw up conclusions as to whether the sector is vulnerable to money laundering and terrorist financing threats while the products are still limited.
- Firms in the sector must carry out periodic AML/CFT audits. Administrative sanctions must be applied by the Regulators if they fail to do same

To mitigate the areas of vulnerability, the Securities Market Act will need an amendment for the purpose of AML/CFT specific provisions. Furthermore, the present Regulator, the Central Bank of Liberia, needs to put in place measures to prevent criminal elements using proceeds gained from illegal activities to purchase Central Bank of Liberia bills.

Of the three (3) products being offered, the one with the most vulnerability is the Central Bank of Liberia bills. This product can be purchased by private investors from the commercial banks. An individual with funds generated from illegal activities could succeed in buying said bills, thereby placing his illegitimate funds into the financial system.

## 1.5 INSURANCE SECTOR VULNERABILITY

The Insurance Sector ranks a distant second in size to the banking sector with insurance penetration (measured by premium to GDP) below 2%, which is like other countries in sub-Saharan Africa. In 2010, the Central Bank of Liberia (CBL) took over the regulation and supervision of the insurance sector in line with its authority under Section 8(1) of the new Financial Institutions Act and Section 4(6) of the Central Bank of Liberia Act.

Domestic owned companies currently dominate the insurance sector. There are twelve (12) companies with significant domestic ownership and seven (7) companies with significant foreign ownership.

The insurance industry consists of nineteen (19) insurance companies out of which fourteen (14) operate as composite insurers (carry out both life and Non-life business), three (3) carry out non-life/general business only and two (2) carry out life business only.

The industry's total premium grew at a rate of 3.82% from US\$28.22 million in December of 2016 to US\$29.29 million in December of 2017. This amount is set to increase according to quarterly figures due to the successful enforcement of compulsory insurances.

## **1.5.1 MARKET PLAYERS AND THREATS**

### **1.5.1.1 INSURANCE COMPANIES**

Non-life companies write primarily short-term insurance businesses like motor, fire, accident, marine, aviation, and bonds. Premiums are paid mostly once in the year and claims are only due on the manifestation of the insured event. There is no geographic concentration of these companies, except that urban centers have more companies and policies due to the larger population.

Life companies' main products sold are group life, whole life, endowment and term. Unlike most non-life, premiums, which are paid annually, most life premiums, are paid monthly, and claims paid on either maturity/surrender, or the happening of an insured event like death. Money laundering and terrorist financing activities can be perpetrated in life products because they are more likely to be cancelled before maturity for cash claims. Liberia does not have a fully operating capital market, and as such, investment opportunities are limited, and companies do not sell investment-linked products, the presence of which sometimes attracts money launderers.

Money launderers and terrorist financiers may exploit these instruments to their benefit. Life insurance products are riskier for ML/TF and so greater risk mitigation measures for these products are necessary. All life and general business insurers have their head offices in the capital city Monrovia, with branches are scattered around in other urban areas of the country.

### **1.5.1.2 AGENTS**

Agents are persons appointed and authorized by insurers to solicit applications for insurance and in the process; they negotiate for insurance business on behalf of the insurer. Most agents in the sector are not salaried employees. They depend mainly on commissions from successful policy sales and a small allowance from the company. An agent is restricted to one life and one non-life insurance company and is also restricted to the facilitation of claims settlement processes only as far as the interests of his/her principal will allow.

Both Life and non-life insurance companies engage the services of field agents, for distributing their products to numerous existing and prospective clients. Agents are the first point of contact between most insurance companies and their customers. Most agents lack any kind of training, education or awareness of the dangers and potential in the market for money launderers. There is currently no Association for Insurers in Liberia.

Insurance companies bear the most responsibility to train their agents, and because they also lack enough training in AML/CFT, they have been unable to train their agents. The Regulators for the general benefit of the industry should consider standing in providing training to agents.

### **1.5.1.3 INSURANCE BROKERS**

In Liberia, there are currently only two (2) registered brokerage firms. Several existing and prospective firms have applied for a brokerage license, so this number is set to increase. Similar to agents, brokers are also the first point of contact between potential policyholders and the company and because of this, their level of knowledge in AML/CFT is important. The two insurance brokerage companies are small in terms of equity and activity. There is only one reinsurance broker in the market. Although brokers are more informed about ML risk, there was no evidence that they have had any training in ML risk in the recent past. It is recommended that the Insurance sector in collaboration with the AML/CFT unit arrange a training of Insurance intermediaries on ML/TF risk.

### **1.5.1.4 REINSURERS**

There are no reinsurance companies based in the country.

## **1.5.2 VULNERABILITY ASSESSMENT OF GENERAL AML/CFT CONTROLS**

### **1.5.2.1 COMPREHENSIVE OF AML/CFT LEGAL FRAMEWORK**

The Central Bank of Liberia is the regulatory authority of the Insurance sector of Liberia. The CBL derives its powers from the New Insurance Act of 2013, which came into effect in December of 2014. The Act has no specific provision on AML/CFT and no accompanying regulations on the same. However, the Act and its attendant regulations address several issues relating to AML/CFT such as customer due diligence, retention of records, business plan, risk management framework, board oversight etc. Regulators also have the power under the Act to draw up regulations as they see fit. In addition to this, the AML/CFT Unit has drafted an AML/CFT Examination Manual for Insurance Entities, which provides systematic guidance on the Risk-based Approach (RBA) to examiners. **This variable was rated medium.**

This is due to the lack of any comprehensive AML/CFT legal framework in the insurance sector. The regulators lack any specific regulations and the existing regulations do not adequately address the gap. Insurance Companies have no AML/CFT policies and most of their staff lack ML knowledge and training. Most insurance companies lack compliance officers as well. During our interviews it was discovered that very few staff understood ML/FT risks to their institutions and very few had participated in any relevant workshop or training. The Insurance Unit and the

AML/CFT Unit need to assess deficiencies in the current legal framework and develop regulations to fill the gaps.

### **1.5.2.2 EFFECTIVENESS OF SUPERVISION PROCEDURES AND PRACTICES**

The NRA team assessed whether the Insurance sector had a comprehensive AML supervision regime supported by appropriate powers, staff and other relevant resources. An adequately resourced supervisory structure can ensure a positive degree of adherence to AML requirements and prevent system-wide problems within the industry. It was found that insurance regulators lack any comprehensive training in AML /CFT and are already faced with staff constraints. The AML/CFT Unit has received training from development partners of the Bank but this training needs to be extended to insurance supervisors. Additionally, technical procedures and management information systems across the industry are generally inadequate to put in place the necessary systems to mitigate threats to the sector, which increases the sector’s vulnerability. As such, resources need to be allocated to train the Insurance Section staff and risk assessment tools developed to enhance onsite/offsite inspections and quality of AML/CFT regulation.

This is because the Central Bank of Liberia has not allocated adequate resources to train insurance staff for the effective supervision of AML activities. While the AML/CFT unit has benefitted from such training, they have not extended this to the insurance staff who interact with insurance staff and companies on a daily basis and who are more familiar with the systems and processes in place. Since the creation of the AML/CFT unit, it has not conducted on-site supervision of insurers although it has developed a manual for onsite/offsite examinations.

We rated this variable **low**

### **1.5.2.3 AVAILABILITY AND ENFORCEMENT OF ADMINISTRATIVE SANCTIONS/CRIMINAL SANCTIONS**

Supervisors should be authorized to impose sanctions for failure to comply with the AML/CFT requirements. This should include powers to impose a range of disciplinary and financial sanctions; including the power to withdraw, restrict or suspend the financial institution’s license. A country needs to have a range of effective, proportionate, and dissuasive administrative sanctions applicable to natural or legal persons in cases of noncompliance with AML laws and regulations. The Insurance Act does have dissuasive administrative fines and penalties for violators of its regulations and laws, which will be extended to AML/CFT regulations when they are developed. The CBL enforces these penalties on violators. We rated this variable **medium** because it can be easily rectified when AML/CFT specific laws regulations or policies are developed.

#### **1.5.2.4 AVAILABILITY AND EFFECTIVENESS OF ENTRY CONTROLS**

This variable assesses the availability and effectiveness of entry controls (including licensing, registration, or other forms of authorization to operate). A country has effective entry controls if there is a comprehensive legal and regulatory framework, which provides authorities with appropriate powers, a sufficient level of trained staff, and other resources with which to carry out their duties. Effective entry controls help to reduce money-laundering vulnerability and ensures a higher level of compliance with AML requirements. Without being AML/CFT specific, the NRA team discovered that there were sufficient requirements in the New Insurance Act 2013 and its regulations specifically Regulation No. CBL/RSD/INS/004/2016 concerning the governance, management and control of insurance companies and Regulation No. CBL/RSD/INS/004/2016 concerning licensing of insurance companies and changes in ownership and management. Sections of the Act also call for supervisory approval for changes in ownership, control, management, directors and key functionaries and have criteria to be met. Staff have been trained to carry out due diligence on potential owners, sources of capital and key management personnel. This means that there is a clear and comprehensive framework in place for licensing of entities, employment of senior management and vetting of owners of insurance companies.

We rated this variable **Very high**

This is because most standards and requirements for screening, vetting and approval are in place. However, supervisory staff need to be trained so that they acquire a better understanding and appreciation of ML risks.

#### **1.5.2.5 INTEGRITY OF STAFF IN INSURANCE COMPANIES**

The team assessed whether the insurance firm's staff act with integrity and do not collude with criminals, act corruptly or are willfully negligent in condoning acts of fraud. It was discovered in the course of our investigation that generally there are few cases of fraud emanating from the industry and in instances where staff were involved in fraudulent act, said staff were promptly fired or had other disciplinary action levied against them. Insurance companies generally have in place policies dealing with staff integrity.

The Central Bank of Liberia also has regulations relating to staff conduct that should always be maintained. Regulation No. CBL/RSD/INS/001/2016 Concerning overriding Principles and business conduct of Insurance companies mandates amongst other things that an insurer and its staff should carry out business honestly, and with due skill care and diligence and treat policy

holders and potential policy holders fairly at all times, and furthermore act properly and fairly to address any conflict of interest with policyholders and potential policyholders. These obligations apply before a contract of insurance is entered into, at all times during the subsistence of the contract and continues until all obligations under the contract have been satisfied. However, it was reported in questionnaires and through interviews that most cases of employees leaving the industry were as a result of the downturn in economic activity, which negatively affected the sales of insurance policies. Since the general salary in the industry is low, most staff augment their income through the sale of policies (through which they receive commission).

We rated this variable **Medium**

The reasons for this rating are that although disciplinary measures against acts of misconduct such as misrepresentation, failure to remit premium to insurers were few. We also noted lapses in insurers reporting on these cases. Reporting requirements for cases of ML need to be put in place and vetting procedures for staff as well as training. The regulator for its part needs to develop and submit a template in its monthly or quarterly reporting in which insurers can report on staff leaving their institutions along with reasons for their departure or dismissal.

#### **1.5.2.6 AML KNOWLEDGE OF STAFF IN INSURANCE COMPANIES**

The team assessed whether insurance firms' staff have the understanding regarding their AML duties and responsibilities. It was discovered that insurance staff do not have appropriate AML training programs and materials available for their education. During interviews, it was observed that most insurance staff knew very little about ML and were unaware of their companies' vulnerability to ML.

We rated this variable **Low**

This rating was given because there was no evidence that staff had participated in any AML training or had been given educational materials to make them aware of their institution's vulnerability to Money laundering. There is no scheduled training and the one training organized by FIU (Financial Intelligence Unit) had very limited participation from employees of the insurance sector. There is also no specific provision in the insurance regulations, which compels the regulated entities to train their staff; hence, the regulator is unable to impose sanctions for non-compliance.

### 1.5.2.7 EFFECTIVENESS OF COMPLIANCE FUNCTION (ORGANIZATION)

Our assessment of this variable was based on whether the insurance firms have effective AML compliance function that is comprehensive, risk-based, and well resourced with an independent AML compliance function.

This variable was rated **Low**

There are no AML/CFT compliance officers in insurance firms and compliance officers there have little knowledge of the risk of money laundering to the sector. There AML/CFT Units within the Regulation & Supervision Department have drawn up policies and procedures for insurance companies on ML risk, which is comprehensive, risk based and whose staff have been trained in ML/TF. No on-site inspection/examination of insurance companies has been carried out by the unit because of the capital exercise last year, but they have informed the insurance section that they are scheduled to commence examinations soon.

### 1.5.2.8 EFFECTIVENESS OF SUSPICIOUS ACTIVITY MONITORING AND REPORTING

This variable assesses whether insurance companies have effective and appropriate systems for record-keeping, monitoring, and Suspicious Transaction Reporting (STR) to support their AML policies and procedures.

The team met with mixed results when it came to recordkeeping and appropriateness of Management Information Systems. Some insurance firms had in place adequate information systems that enable and facilitate the monitoring of transactions of clients against their profiles, but these systems fell short of being adequate and appropriate for AML monitoring and data collection. Other companies had very poor systems of record keeping and poorly resourced management information systems

We rated this variable **medium low**.

There are no systems in place to identify and monitor the transactions of PEPs. So far, the systems have not been able to assist insurance firms and insurance firm staff to identify and report suspicious and unusual transactions.

The Insurance Regulations No. CBL/RSD/INS/007/2016 concerning Notifications and Reporting to the Authority mandates insurers to report to the Authority on matters having a material regulatory impact and on the occurrence of specified changes. These disclosures should be done accurately and within the timeframe specified in the regulations. This regulation can be amended to include reporting on issues related to ML/TF.

#### **1.5.2.9 LEVEL OF MARKET PRESSURE TO MEET AML STANDARDS**

We assessed whether market forces exert pressure on the managements of insurance companies to have an effective AML compliance function. After reviewing the insurer's relationships with other professional bodies and organization, we concluded that the only organization that has the power and knowledge to do this is the insurer's reinsurer.

We rated this variable **very low** (close to nothing)

There was no evidence to suggest that reinsurers were exerting any pressure on insurer to meet AML standards. They did work along with insurers to improve their underwriting systems, trained insurance staff, enhanced record keeping and red-flagged transactions that were out of the norm.

#### **1.5.2.10 AVAILABILITY AND ACCESS TO BENEFICIAL OWNERSHIP INFORMATION**

The team assessed whether it is easy for criminals to hide their beneficial ownership in corporations, trusts or similar structures registered in or administered from within Liberia.

We rated this variable **Low**.

Background checks are carried out on significant shareholders of insurance companies as well as board members and senior management. There is no policy on beneficial ownership. Although due diligence is carried out on owners and key functionaries, there is no evidence that this extends to beneficial owners.

#### **1.5.2.11 AVAILABILITY OF RELIABLE IDENTIFICATION INFRASTRUCTURE**

Our assessment of this variable was based on whether the regulated institutions are able to verify the identity of customers using reliable, independent source documents, data or information. A

good identification infrastructure will prevent the use of fake documents and false identities, which hamper the ability to detect and investigate money laundering and trace the proceeds of crime.

We rated this variable **Medium Low**.

There are several sources of identification documents being used (passports, driver's license, Voter IDs, office IDs etc.) which can make the verification process difficult. The use of these various identification sources makes it easier for some to use fake IDs. With the initiation of the National I.D system, this may be less of a problem in the future.

#### **1.5.2.12 AVAILABILITY OF INDEPENDENT INFORMATION SOURCES**

This variable assesses the availability of independent and reliable sources of information to support the verification of the client ID and determine transaction patterns of clients.

We rated this variable **Low**.

We considered the availability of five main independent sources of verifying identifications, namely, utility bills, international travel passports, driver licenses, National identification cards, and voter identification cards. The Insurance industry has no means of verifying transaction patterns of clients. See AML/CFT vulnerability rating table 4 in Appendix.

### **1.5.3 VULNERABILITY ASSESSMENT OF PRODUCTS AND SERVICES**

After a careful consideration of the products and services available in the insurance market, we narrowed our selection to three (3) products whose inherent traits made them more vulnerable to ML. Our selection was limited because of lack of availability of investment type policy and limited cross border use of products.

#### **1.5.3.1 LIFE ASSURANCE**

In the Liberian industry, the life insurance subsector is smaller than the non-life sector in several respects; in premium generated, diversity of products, market share and value of transactions. This could be because of several factors. Life insurance is historically a long term insurance, that is, in cases of pure life (payment upon death of insured); the policyholder is against the policy for several years before he/she is entitled to a surrender value or full sum assured upon maturity.

Taking into account Liberia's recent history of a long civil crisis which saw the closure and exit of many financial institutions including insurers and a serious dip in consumer confidence of the longevity and viability of financial institutions in the long term., the more recent years of peace and economic recovery and stability have led to more financial inclusion and increased confidence in the financial system, which it is hoped will translate into real gains and increased insurance penetration rate<sup>65</sup>.

In choosing our Life product, we focused on products that have a significant premium generation, and have high cash values payouts.

### **1.5.3.2 GROUP LIFE AND MEDICAL**

This is the highest grossing life insurance product sold on the Liberian market. It covers death and medical expenses or disabilities of members of a group. It is usually sold to companies, government agencies, ministries, and other similar groups. The premiums under this contract are paid on behalf of the whole group and the risk was rated in consideration of the risk exposure, history, general age and characteristics of the group.

Considering the scale on which this product is sold and the fact that its policyholders usually include PEPs and other high net worth individuals, money could be laundered through the assignment of policies and payments to third parties. It would be prudent to ensure that existing policies and procedures are reviewed, and if needed, additional guidelines added to ensure that it is not used for ML purposes.

It should, however, be noted that the ML risk of this particular product is limited in Liberia as corporations are the main subscribers to this product. In addition, premium payments are made by salary deductions, checks and/or bank transfers and policyholders are mostly local residents.

### **1.5.3.3 TERM LIFE**

This product is sold in many forms and widely used by the populace, mainly as additional collateral when taking long or medium-term loans or mortgage loans from banks or during trips abroad. The policy provides cover during a specified period (relatively short period), and can be renewable upon request and is payable on the happening of the insured event during a specified period of

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<sup>65</sup> Penetration rate indicates the level of development of insurance sector in a country. It is measured as the ratio of premium underwritten in a particular year to the GDP.

time (usually, death, disability or default by the insured). They are more expensive than Group Life and usually sold to individuals instead of entities.

Term policies usually do not provide non-forfeiture<sup>66</sup> values unless there are savings component to the contract. Most term policies in Liberia were adjudged to present ***low money laundering risk***.

#### **1.5.3.4 NON-LIFE INSURANCE**

In Liberia, the non-life insurance subsector is significantly larger than the life sub-sector in respect of premium generation, diversity of products, market share and value of transactions. The non-life market has shown greater evolution and growth than the life sub-sector partly because it is usually short term in nature. Non-life insurers sell retail and corporate products for motor, fire, personal property, and corporate assets as well as marine cargo and a variety of bonds.

#### **1.5.3.5 MOTOR**

Insurances on motor vehicles are one of the most significant sources of premium generation for the market. Third party motor liability is compulsory and enforced by government.

Although motor insurance was selected as a point of interest because of its high revenue generation, the frequent use of agents to sell the product (mostly poorly trained agents), availability of cross border use (through the ECOWAS Brown Card\*) and high level of cash transaction; its ***ML risk is considered relatively low*** as payment of benefits is contingent on partial or full damage to vehicle. Insurance companies usually send out staff to verify reported incidents and request police reports.

#### **1.5.3.6 FIRE**

Fire policies on commercial and private property are also a significant revenue generator. More importantly, it was selected as a product of interest because of the high value of its policies. It is considered to present ***medium ML risk*** because of its Client base profile, which includes high net worth individuals both local and foreign, its potential for fraud and the high payout values of sum assured.

#### **1.5.4 CONCLUSIONS**

On the overall, it can be determined that due to the low level of sophistication in the insurance industry, relatively small volumes of cash and lack of investment opportunities in products, the

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<sup>66</sup> Benefits that accrue to the insured when the policy lapses from nonpayment of premium. These benefits are usually either an amount of paid-up life insurance or a cash surrender value.

Liberian insurance industry presents a low level of money laundering risk. This may increase as the market becomes more sophisticated and open to foreign markets and more investment-linked products are introduced without supervisory authorities putting in place the right measures to mitigate the risk.

### **1.5.5 RECOMMENDATIONS**

- With technical assistance from international partners, a comprehensive AML legal framework for the insurance sector should be developed.
- It was found that insurance regulators lack any comprehensive training in AML /CFT and are already faced with staff constraints. The AML/CFT Unit has received training from development partners of the Bank but this training needs to be extended to insurance supervisors. Additionally, technical procedures and management information systems across the industry are generally inadequate to put in place the necessary systems to mitigate threats to the sector, which increases the sector's vulnerability. As such, resources need to be allocated to train the Insurance Section staff and risk assessment tools developed to enhance onsite/offsite inspections and quality of AML/CFT regulation.
- Staff of insurance companies and their Board of Directors need to be educated to the dangers of money laundering and the sector potential exposure to this with measures that can be put in place to mitigate the risk.
- There needs to be AML /CFT periodic seminars targeted at Brokers and Agents because of their role as first point of contact. It is recommended that the Insurance sector in collaboration with the AML/CFT unit arrange a training of Insurance intermediaries on ML/TF risk.
- Reporting requirements for cases of ML need to be put in place and staff vetting procedures for staff as well as training. The regulator for its part needs to develop and submit a template in its monthly or quarterly reporting in which insurers can report on staff leaving their institutions along with reasons for their departure or dismissal.

## **1.6 OTHER FINANCIAL INSTITUTIONS' VULNERABILITY**

Liberia is not a significant regional financial center; the financial system has limited capacity to detect money laundering, and financial controls are weak. The economy runs on a traditional cash-based system, with the Liberian and United States Dollars being legal tender. Liberia has a significant market for smuggled goods, which are easily imported as a result of its long, porous

borders. The relative openness of Liberia’s economy coupled with its craving for foreign investment makes the country vulnerable to illegal business activities.<sup>67</sup>

The Other Financial Institution Sector is categorized by the formal and informal sectors. The formal sector is regulated by the Central Bank of Liberia and constitutes Forex Exchange Bureaux, Microfinance Institutions, Mobile Money Providers and Agents, Rural Community Finance Institutions, Remittance Institutions, Credit Unions and Finance Companies. The informal sector, which is unregulated, consists of entities such as Village Savings & Loan Association (VSLA), Susu or Credit Clubs, underground remittance entities and black-market money exchangers. The most important factors driving non-compliance among these sectors is that the AML/CFT obligations for some categories of OFIs have not yet been sufficiently tailored in a risk based manner, nor incorporated into relevant laws/regulations to ensure their enforceability.

The scope of this exercise is tailored to assess vulnerability of all entities operating within both the formal and informal sectors of OFIs. This sector is prone to money laundering activities due to the volume and value of transactions and is predominately cash based. The assessment considered overall and inherent vulnerabilities of AML/CFT controls and monitoring from each of the sub-sectors as seen below:

Table 3: Category of Other Financial Institutions & Vulnerability Rating

Other Financial Institutions		Total Number	Customer Base	ML/TF Vulnerability Ratings
1.	Foreign Exchange Bureau	132	N/A	High
2.	Microfinance Institutions	18	37,217	Medium-Low
3.	Mobile Money Providers	2	2,685,471	Medium-High
3a	Mobile Money Agents	6,203	N/A	
4.	Rural Community Finance Institutions (RCFIs)	12	9,699	Medium
5.	Remittance Institutions		N/A	Medium-High
6.	Credit Union	120	22,786	Medium-High
7.	Finance Companies	1	N/A	Medium-Low
8.	Village Savings & Loan Association (VSLA)	1,178	N/A	Medium
9	Susu or Credit Club	N/A	N/A	Medium-Low

67 <https://www.state.gov/j/inl/rls/nrcrpt/2014/supplemental/227920.htm>

### 1.6.1 FOREIGN EXCHANGE BUREAU

The foreign exchange bureau sector in Liberia comprises of one hundred and thirty-two (132) licensed foreign exchange bureau as at May 31, 2018, that are situated within the parameters of Montserrado County. A Foreign Exchange Bureau may be established as a sole proprietor, partnership or a company and licensed by the Central Bank of Liberia (CBL). Activities of foreign exchange bureau in Liberia include purchases and sales of foreign currencies and traveler's checks, local and international remittances, agent banking (agents of banks) and agents of Mobile Money Providers.

The Central Bank of Liberia Regulation No. CBL/SD/002/2011 permits foreign exchange bureaus to be categorized into two levels; **A** and **B**, with distinct operating requirements. Both categories are required under the regulation to adhere to KYC/CDD provisions, which are not being complied with. The level of vulnerability in this sector was rated **high** due to lack of proper regulatory controls and monitoring over the sector. Though this sector is being licensed and supervised by the Central Bank of Liberia, there are no reporting mechanisms put in place, neither are there standard procedures for the operations of both categories. The monitoring controls with regards to on-site or off-site surveillance of this sub-sector are weak. There are no reporting mechanisms put in place for entities operating within this sub-sector which should serve as base for individual institutions to keep track records of transaction volume or information concerning its client base; likewise, their dealings with Politically Exposed Persons (PEPs).

There are no records to prove that this sector is in compliance with the AML/CFT Regulation concerning "Know Your Customer or Customer Due Diligence (KYC/CDD)." Also, staff do not have the basic AML/CFT training, which makes it more prone to ML/TF risk. There is also no system and control with regards to customer identification, neither are there receipts given to customers. This sub-sector has also engaged into other financial activities including remittances and e-payment services, and there are no track records on CDD or transaction threshold for all transactions.

### 1.6.2 MICROFINANCE INSTITUTIONS

The Microfinance Regulatory and Supervisory Framework for Liberia was approved in 2010. In Liberia, microfinance services are being carried out by commercial banks, credit-only institutions,

NGOs, credit unions, rotating savings and credit associations, and informal credit providers.<sup>68</sup> According to the IMF Financial Access Survey, in 2012, MFIs in Liberia serve more clients than commercial banks in the provision of credits. 4.2 percent of Liberian adults borrowed from a MFI, compared to 0.9 percent from a commercial bank, and twice as many people held actual loan accounts with MFIs compared to commercial banks. However, banks still provided far more credit in terms of value: the volume of outstanding loans owed to commercial banks as a percentage of Liberia's GDP was 1,395.8 percent in 2013, versus 158.3 percent for all MFIs the same year.<sup>69</sup>

As at end of December 2018, the Non-deposit taking Microfinance sector had a little over 39,305 number of clients as compared to the third quarter of 2018 of 36,296 serving 35,889 active female borrowers constituting 91% of total clients. The sector also had over USD 6.8 million in total assets with net income of USD 750,343. Total number of employees in the non-deposit taking microfinance Institution was three hundred forty-one (341) serving the poor.<sup>70</sup>(CBL Annual Report)

Over the last years, the World Bank Technical Assistance support to the CBL in reforming the microfinance sector and other NBFIs has mainly focused on strengthening the regulatory, supervisory and governance framework as well as providing capacity building for the CBL Examiners.

There are eighteen (18) Micro-finance Institutions (MFIs) in Liberia; seventeen (17) non-deposit taking and only one (1) deposit-taking MFI is currently being regulated by the Central Bank of Liberia. This sub-sector also includes about twenty –two (22) branches in six of the fifteen counties in Liberia. Activities in this sector include; savings, loans, domestic funds transfer, mobile money, and other financial services approved by the Central Bank of Liberia (CBL) that is targeted at the economically poor, micro, small and medium enterprises and low-income earners.

Micro-loans are generally considered unsecured loans up to US\$7,000 or its equivalent in Liberian dollars as defined in the Amended Prudential Regulations for Asset Classification, Loan Loss Provisions and Suspension of Interest on Non-performing loans, extended by any microfinance institution. The level of vulnerability in this sub-sector was rated **Medium-Low**. The rating is due to the low vulnerability to ML/TF since most of the loans are given in small amounts and in

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68 [https://www.mfw4a.org/fileadmin/data\\_storage/documents/MFW4A-documents/Country\\_FSP\\_LIBERIA\\_-1.pdf](https://www.mfw4a.org/fileadmin/data_storage/documents/MFW4A-documents/Country_FSP_LIBERIA_-1.pdf)

69 <https://www.imf.org/external/np/seminars/eng/2015/brazzaville/pdf/MialouENG.pdf>

70 <https://www.cbl.org.lr/doc/cbl2018annualreport.pdf>

Liberian dollars to only members. Additionally, the sizes of majority of the non-deposit-taking MFIs are small which limits their activities to savings and credit. Staff of most MFIs have received requisite AML/CFT training, though the level of monitoring and controls by the Central Bank of Liberia with regards to on-site and off-site supervision is relatively low. This sub-sector needs continuous monitoring and supervision by the Regulatory Authority.

### 1.6.3 MOBILE MONEY PROVIDERS

The mobile money sector in Liberia has experienced enormous growth over the period since its inception in 2011. The first Mobile Money regulatory framework was issued as a bank-led model in 2011, which led to slow uptake of customers. In 2014, the CBL became more flexible with the Regulation and opened it to allow entities to apply. The Central Bank of Liberia licensed two subsidiaries under the two Mobile Network Operators; Lonestar Cell MTN Communication Company and Orange Liberia to provide Mobile Money. Mobile Money services have reached all fifteen (15) counties in Liberia. According to CBL Report, Liberia has experienced a rapid increase over the past two years. The agent network has also grown over the period from 3,525 in 2017 to 6,995 in 2018. The number of active mobile money accounts have expanded over a period of two years from 249,127 in 2017 to 338,844 in 2018 for the two licensed Mobile Money Providers.

The agent network for the two Providers cuts across the entire financial sector and consists of commercial banks, foreign exchange bureau, Rural Community Finance Institutions (RCFIs) and MFIs etc. It also includes retailers like stores, shops, supermarkets, gas stations, saloons etc.

Activities provided under this sub-sector include bill payments, local transfers, school fees, salary payment, tax payments, purchase of goods and services, etc. Though this sector is currently being regulated by the Central Bank of Liberia, the level of vulnerability with respect to ML/TF was rated **Medium-High**. Regulators have no information on beneficiary ownership concerning customers since all data are stored on the platform of these providers. There are AML/CFT policies and procedures in place; however, there is no proper reporting system to submit real time data to the Central Bank. Another factor of vulnerability in this sector includes the level of due diligence done by agents of these subsidiaries when on boarding new subscribers/clients. Agents are not given the requisite tools/forms to on-board subscribers/clients and lack proper CDD on customers. Agents of Mobile Money Providers are also not given any training on AML/CFT issues, and they are the frontline officers of the subsidiaries. The Central Bank Mobile Money Regulation allows Agents to be supervised by the Mobile Providers. STRs are submitted from only

one provider though they are conversant with the AML/CFT Regulation as well as the Financial Intelligence Regulations on STRs.

#### **1.6.4 RURAL COMMUNITY FINANCIAL INSTITUTIONS (RCFIS)**

There are currently twelve (12) RCFIs located in eight (8) counties in Liberia. These RCFIs were established to provide access to finance for the poor and unbanked population in areas where there is no physical presence of banks. They are currently collaborating with one of the commercial banks that serves as a corresponding bank and has assisted in providing support to their IT Platforms, liquidity support and training of staff, etc.

Activities of the RCFIs include payment of civil servant salaries, granting of short-term salary advances and accepting customer's deposits. These community banks also provide international and local remittances such as Western Union, Money Gram and mobile money as sub-agents for a partnering commercial bank and agents for the mobile money operators. Based on the survey, the team gathered that RCFIs submit returns on a need-be basis to the Central Bank through the internet, if there is adequate network coverage or through a phone call. Though there is a Regulation to supervise these institutions, they have not been properly supervised and monitored. They are also not given adequate training in ML/TF, which makes its level of vulnerability high at the point of on-boarding customers. Notwithstanding, this sector has been rated **Medium**. The level of vulnerability lies in the products and services offered by this sub-sector and customers. There is no STRs submitted from this sector since staff do not have the requisite knowledge. This sub-sector has not considered conducting CDD on customers neither Enhanced Due Diligence (EDD) on political leaders within the various Counties, which creates high levels of vulnerability for ML/TF. This sub-sector needs to do enhanced due diligence on its members.

#### **1.6.5 REMITTANCE INSTITUTIONS**

A Money Remittance entity is an entity licensed under the Central Bank of Liberia Regulation to render money remittance services but is not necessarily permitted to engage in banking business unless also licensed to do banking business. Only a registered business may be licensed to render money remittance service.

The money remittance sector in Liberia is not diversified as compared to the Nigerian money remittance sector where there are two categories- one for the licensing of existing international money transfer service operations who are licensed in a foreign jurisdiction and the other for indigenous international money transfer service operators.

There are no recent changes or plans to change Liberia's investment remittance policies to affect access to foreign exchange. Generally, there are no legal time limitations on remittances, or on the inflows or outflows of funds for remittances of profits or revenue. Due to the limited number of correspondent banking relationships, bank fees related to currency exchange and wire transfers can be high. In general, corporations can remit as much as one million USD through commercial banks. Transferring banks are required to file normal cash transaction reports with the CBL. Depending on the amount to remit and the bank(s), the wait-period to remit each type of investment returns ranges from a few hours to three business days. However, individuals without a bank account are limited to two over-the-counter transfers of up to \$5,000 within a 30-day period. The CBL Regulation instituted thresholds for suspicious transactions for which banks must exercise customer due diligence and know your customer rules. The thresholds are \$25,000 and above for individuals, and \$40,000 and above for corporations.

In Liberia, all remittance institutions are in partnership and act as sub-agents to commercial banks except for six (6) Foreign Exchange Bureau, which operate as stand-alone remittance entities.

The partnering institutions stand at a lower risk of vulnerability since they are subjected to the commercial banks they partner with. The activities in this sector include local and international money transfer services (Western Union, Money Gram) as well as mobile money. However, for the Foreign Exchange Bureaux sector, funds are remitted via telephone calls from one country to another, either to a branch of the bureau in another Country to be subsequently delivered to the recipient. Though Bureaux submit weekly, monthly and quarterly reports to the CBL regarding their transactions volume and value, there is no supporting documents concerning identification of their respective customers. Therefore, due to lack of proper KYC/CDD compliance and lack of AML/CFT training in this sub-sector, the level of vulnerability was rated **Medium High**.

#### **1.6.6 SUSU OR CREDIT CLUB**

This is a form of informal financial institution, predominantly utilized by majority of Liberians as a way of informal savings and/or loan disbursement. A Susu or credit club can be established by community dwellers, marketers, as well as workers in different institutions in Liberia, etc. for depositing savings for short-term purposes with or without interest. Savings is mostly done in Liberian Dollars. Level of vulnerability to AML/CFT is **Medium-low**; in that members save sometimes borrow from their own savings. Most of these informal groups are closed groups. Members are familiar with each other. Sources of funding from members are not known within these Susu or Credit Clubs, which also create high level of vulnerability.

### 1.6.7 BLACK MARKET

This sub-sector consists of various Informal institutions including but not limited to illegitimate foreign exchangers, and remittance entities that greatly influence the foreign exchange market. Some illegitimate remittance institutions and foreign exchangers operating in Liberia operate in a shadow way and have a second party overseas that receives from and sends money to them and they intend make repayments or transfers to their counterparts. They also collect funds in terms of goods that are sent by containers, etc.

The customer base of this sector is not known but consists of PEPs and smaller businesses that are trading between Liberia and neighboring Countries and China utilizes services of this sector. This poses high levels of vulnerability and creates difficulty in tracking down the flow of money or transactions. This sector was rated **High**, and the level of vulnerability to ML/TF is high. There is no system or documents to reveal transactions trail of customers. Vulnerability to the Liberian economy is high given that PEPS, money launderers, etc. can easily maneuver within this sub-sector without being caught since they are also unregulated.

### 1.6.8 CREDIT UNIONS

Credit Unions are guided by an apex body known as Liberia Credit Union National Association (LCUNA), which was established in 1969. These Credit Unions constitute members that mobilized capital through contribution and savings and, in return, lend to its members. There are currently 120 credit unions with over 50,000 members. The Credit Unions are segmented into four groups; community credit union, regional credit union, employees' credit union and farmers' cooperation. This sector was rated **Medium-high** due to their level of vulnerability to ML/TF. Currently, the Apex body is unregulated by the Central Bank of Liberia and there are no documents to prove the volume or value of their respective business activities. Additionally, there is high levels of risk with respect to KYC/CDD on-boarding of membership or beneficial ownership. Members of Credit Unions are not aware of the AML/CFT Regulatory framework.

### 1.6.8 FINANCE COMPANIES

There is only one licensed finance company established to provide SME loans to Liberian-owned Small and Medium Enterprises (SMEs). The sub-sector was rated **Medium-low**. Based on the survey, it was established that staff of this institution have the requisite AML/CFT trainings and are in compliance with the regulatory framework of the CBL though there are no STRs reported by this sub-sector to the Financial Intelligence Unit. Loans are disbursed on smaller scale and are

sometimes distributed in collaboration with commercial banks. This sub-sector also conducts KYC/CDD on customers and uses the Credit Reference system of the CBL during the disbursement of loans.

### 1.6.9 VILLAGE SAVINGS AND LOAN ASSOCIATIONS (VSLA)

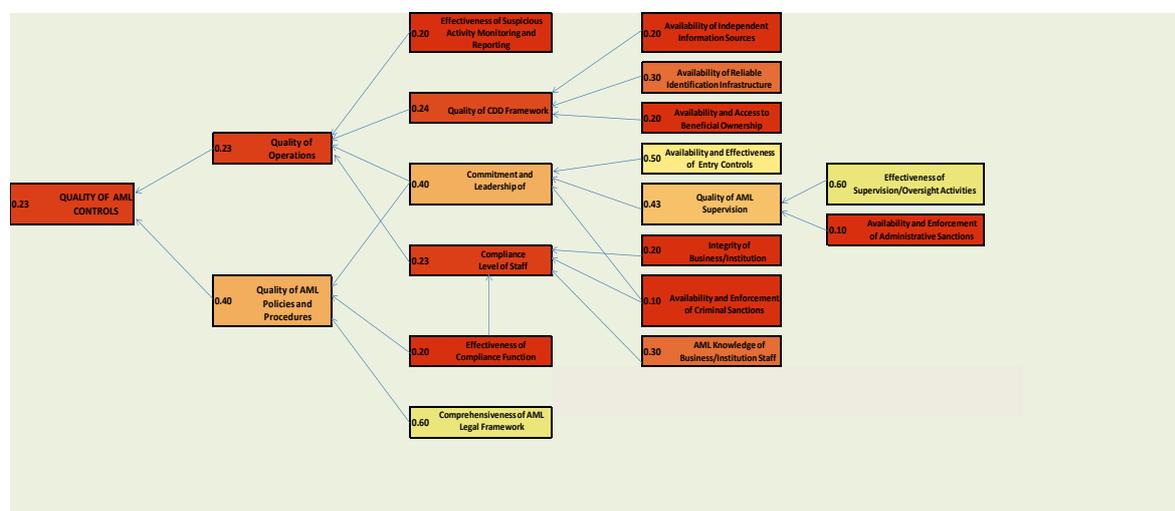
The Village Savings and Loan Associations (VSLAs) are informal institutions that are guided by an Apex body called National Apex Village Savings & Loans Association (NAPEX), established by the CBL when? This Apex body serves as mediator and supervises these institutions. According to report from NAPEX, there are about **1,178** Village Savings and Loan Association (VSLA) groups with over 40,000 members in Liberia. Members for each VSLA range from 15-30, with 30 being the maximum. These informal institutions are closed groups and members are familiar with each other.

There is no tailored regulatory framework for this sub-sector and the CBL has not enforced supervision and monitoring of the Apex body to ensure effective AML/CFT compliance, which gives rise to the probability of PEPs onboarding as members. Notwithstanding, due to the traditional means of providing financial activities for the low-income population in this sub-sector, it was rated **Medium**.

### 1.6.10 MONEY LAUNDERING AND TERRORIST FINANCING VULNERABILITY RATINGS

This section reflects the overall level of vulnerability for the OFI sector which is 0.56 meaning **Medium**. It also illustrates overall quality of AML Controls to be rated **very low**. (See figure 4).

Figure 2: Vulnerability Map for OFIs



The section also highlights ML risk level of the OFI Sector considering key factors that determine the quality of AML Controls and level of compliance and enforcement by the supervised sub-sectors and the Regulatory Authority.

### **1.6.11 QUALITY OF AML CONTROL**

The Quality of AML Control was relatively weak as seen in the graph below, meaning the ML and TF risk was high. Factors determining this level of control originated from poor entry controls by supervised entities within the OFI Sector. Most entities in the OFI Sector did not have records to show their respective customer base or policies for onboarding of customers, that is, KYC/CDD. Another factor determining the weak AML Control was staff capacity on AML/CFT related issues. This also stems from weak monitoring and supervision by the Central Bank of Liberia (CBL). According to the respondents of most of the OFIs, once they have been licensed and paid their fees, the CBL does no monitoring or inspection to ensure that staff obtain the requisite trainings. Further determinants of the weaknesses on AML Control also generated from regulatory compliance with entities and the CBL's mandate in accordance with the Regulatory frameworks to enforce administrative and criminal sanctions where necessary.

Analysis of key factors in the graph above which the Central Bank of Liberia as the regulatory arm and other stakeholders need to be prioritized to mitigate the gaps and deficiencies:

#### **1.6.11.1 AVAILABILITY AND ENFORCEMENT OF ADMINISTRATIVE SANCTIONS**

This was rated **close to nothing**. Respondents stated that the Central Bank of Liberia has not issued any Administrative sanction though it is enshrined in the AML/CFT Act and Regulation. There are Administrative provisions made in other Regulations including FIU STR Regulation, Mobile Money Regulation, Micro-Finance Deposit-taking Institutions Regulation, Foreign Exchange Bureau Regulation, and Rural Community Finance Institution Regulation though they have not been implemented by the Regulator.

#### **1.6.11.2 AVAILABILITY AND ENFORCEMENT OF CRIMINAL SANCTIONS**

This variable was rated **close to nothing**. This sector has no record of being sanctioned by the regulator for any criminal activity though there is a provision in the AML/CFT Law. Also, there is no provision under any Regulatory framework for this sub-sector for the enforcement of criminal sanctions.

### **1.6.11.3 INTEGRITY OF BUSINESS/INSTITUTION STAFF**

This variable was rated **low** due to its involvement with the low-population or unbanked population. However, based on the survey, staff/respondents of OFI Sector are not given the requisite training in products and services relating to AML/CFT. Respondents also stated that they do not undergo employee due diligence since most of the sub-sectors are not monitored by the Regulator. There is no check or follow up concerning staff's previous work or activities he/she was involved with prior to being hired by the OFI. There are also no traces of business transactions to determine their level of AML/CFT compliance.

### **1.6.11.4 AML KNOWLEDGE OF BUSINESS/INSTITUTION STAFF**

This variable was rated **low**. There is provision in the AML/CFT Regulation for staff training. Staff of some of the OFIs have basic AML/CFT knowledge though most staff/respondents stated that they had been given the requisite training in products and services offered by their respective institutions.

### **1.6.11.5 EFFECTIVENESS OF COMPLIANCE FUNCTION**

The AML/CFT Regulation makes a provision for all financial institutions to appoint a Compliance Officer. However, this variable was rated **low** because with exception of the Mobile Money Providers, all other sub-sectors have not appointed a Compliance Officer, neither have they developed policies relating to ML/TF.

Effectiveness of Suspicious Activity Monitoring and **Reporting** was rated **low**. Response from the survey revealed that sub-sectors under OFIs have no mechanisms put in place for monitoring suspicious transactions of clients except for Mobile Money Providers' platform that has a threshold for transactions in accordance with the Mobile Money Regulation. Records also revealed that only one Mobile Provider within the OFI reports STRs.

### **1.6.11.6 AVAILABILITY AND ACCESS TO BENEFICIAL OWNERSHIP INFORMATION**

This variable was rated **low**. The AML/CFT Regulation and Act make provision for beneficial ownership. All entities are duly registered with the Liberia Business Registry and are vetted by the Central Bank during licensing. Notwithstanding, there is a gap concerning OFIs making information available on beneficiary ownership to the regulators. Availability of Independent

Information Sources was rated **low**. There are no reliable sources of information with most entities in this sub-sector. Trail of Transactions of customers are not available and accessible for regulators.

### 1.6.12 INPUT VARIABLES INTERPRETATION

The matrix below represents ratings along with the narratives used to assess each variable as seen in the map below. As illustrated below, the lower the rating, the higher the vulnerability and gaps which expose the sub-sectors to ML/TF risks. As the ratings increase toward 1.0, the vulnerability level decreases making each sub-sector stronger against ML/TF risks.

Excellent	Close to Excellent	Very High	High	Medium High	Medium	Medium Low	Low	Very Low	Close to Nothing	Does not Exist
1.0 □□	0.9 □□	0.8 □□	0.7 □□	0.6 □□	0.5 □□	0.4 □□	0.3 □□	0.2 □□	0.1 □□	0.0 □□

### 1.6.13 CONCLUSIONS

It cannot be overemphasized that activities in the Other Financial Institution (OFI) Sector are predominantly cash base, and therefore have the tendency of leading to a relatively higher ML/TF vulnerability risk. Money laundering and terrorist financing have potentially devastating economic, security, and social consequences to most financial institutions, especially a poor economy like Liberia. It also provides the avenue for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises.

Considering that, Liberia has porous borders and trade is done with neighboring Countries using different currencies, the black market consisting predominantly of illegitimate money exchangers, need to be prioritized and incorporated into the formal sector.

There are several Regulations and Guidelines issued by the Central Bank of Liberia, including but not limited to, Mobile Money Regulations No CBL/RSD/003/2014<sup>71</sup>, Prudential Regulations for Micro-Finance Deposit-taking Institutions No. CBL/RSD/004/2012<sup>72</sup>, Amended Regulation No. CBL/SD/002/2011 concerning the Licensing and Supervision of Foreign Exchange Bureaux,<sup>73</sup> Rural Community Finance Institution Regulation<sup>74</sup>, AML/CFT Regulation for Financial

71 <https://www.cbl.org.lr/doc/MobileMoneyRegulations.pdf>

72 <https://www.cbl.org.lr/doc/MDIregren.pdf>

73 <https://www.cbl.org.lr/doc/foreignexchangechange.pdf>

74 [www.cbl.org.lr/2content.php?sub=145&related=28&third=145...regulations](http://www.cbl.org.lr/2content.php?sub=145&related=28&third=145...regulations)

Institutions<sup>75</sup>, Regulations No. CBL/RSD/005/2016 for the Licensing and Supervision of Money Remittance Entities<sup>76</sup> etc. However, the lack of enforcement of sanctions by the Central Bank has been a major deficiency in AML/CFT Controls.

There is no indication of reporting and monitoring by the regulatory body though the requisite framework to license some of the other financial institutions has been issued.

Though the AML/CFT legal framework is available, most respondents from the MFIs, FX Bureau, RCFI, CU, VSLAs indicated that they were not conversant with the framework and had not been given the requisite AML/CFT training. The assessment also reveals that these institutions are not fully supervised by the Regulator.

Our analysis established that only one entity under the formal OFIs reported Currency Transaction Reports (CTRs), which is one of the two (2) Mobile Money Providers.

Institutions within the formal OFIs do not have Compliance Officers, neither have Compliance programs in place, because they have not been mandated by the regulator to appoint Compliance Officers. As a result, most entities in the sector did not have knowledge on AML/CFT issues.

There were no records of accomplishment of transactions conducted by OFIs to show daily financial transactions Value, Volume, Source of income, information on clients/customers. This makes it impossible for regulators/law enforcement agencies to track foreign currency purchases and those constantly demanding such currency. This makes the sub-sector vulnerable to ML.

#### **1.6.14 RECOMMENDATION**

Based on the review and analysis of our findings, the following were recommended:

1. That the Central Bank of Liberia exerts more efforts to improve the supervision and oversight of formal institutions in the OFI sector, particularly adherence to KYC/CDD and compliance with policies and procedures;
2. That the CBL ensures formal OFIs designate Compliance Officers who will manage the compliance program, monitor transactions, file and document STRs to CBL and the FIU and develop internal AML/CFT Compliance programs to guide its operations and should commensurate with their operations and ML/TF risk profile;

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<sup>75</sup> [www.cbl.org.lr/2content.php?sub=145&related=28&third=145...regulations](http://www.cbl.org.lr/2content.php?sub=145&related=28&third=145...regulations)

<sup>76</sup> <http://www.cbl.org.lr/doc/regmoneyremittanceservices.pdf>, 01-25-19

3. That the CBL develops policy on sanctions for violators and these sanctions should be proportionate and dissuasive;
4. Formal OFIs should be mandated to take and keep records on every customer & transactions that should be accessible at any given period;
5. That the Financial Intelligence Unit (FIU) puts in mechanisms to ensure monthly submission of STRs from all formal institutions in the OFI sector;
6. That the CBL ensures that the formal OFIs conduct regular AML/CFT trainings to all staff;
7. Develop and institute measures on CDD and EDD for PEPs and watch list screening against the OFAC sanction list for beneficial owners of formal OFIs;
8. Develop a vibrant Risk Based Approach Framework: The Risk Based Approach (RBA) to Anti Money Laundering & Countering (AML/CFT) the Financing of Terrorism & Proliferation is a key regulatory requirement of organizations under the laws of Liberia (Regulation 3.5 of the AML/CFT Regulations and a fundamental part of international AML/CFT standards defined in the Financial Action Task Force (FATF) 40 Recommendations on AML/CFT. RBA Framework to AML/CFT will enable OFIs to identify, understand and assess the ML/TF risks to which it is exposed and take measures, which will effectively manage those risks.
9. OFIs must conduct tailor-based AML-CFT trainings for all stakeholders. Trainings must be documented, and attendance archived.
10. Conduct periodic independent review/audit of the AML-CFT regime. Regulators or OFIs management must ensure that the compliance program is an integral part of the entity or institution; and
11. That the Central Bank of Liberia and Financial Intelligence Unit carry out studies on black markets and underground remittance to ascertain the extent to which this has impacted the Liberian economy.

## 1.7 DNFBPs VULNERABILITY

Table 4: DNFBP Regulators and Regulated Entities

Name of Regulatory/Supervisory Entities	Number of Questionnaires Distributed
Ministry of commerce and industry	1
Ministry of Finance & Development Planning	1
Ministry of Lands, Mines and Energy	1
Ministry of Transport	1
National Lottery Authority	1
Environmental Protection Agency	1
National Bureau of Fisheries	1
Liberia National Bar Association	1
Liberia Institute of Certified Public Accountants	1
Forestry Development Authority	1
<b>REPORTING ENTITIES</b>	
T. D. Joseph and Associates	1
Sovconsult Limited	1
Gold and Diamond Dealers Association	1
Heritage Partners and Associates	1
Jones and Jones Law Firm	1
GMI-Monbo Company	1
Sekie and Associates	1
The Kem and Associates Legal Consultancy Chambers	1
Deans and Associates Law Firm	1
Dugbeh Law Offices	1
David A. B. Jallah Law Firm	1
Used Cars Dealers Association	5
Palm Spring Resort	1
Winners Incorporated	1
Doxxbet Incorporated	1
Mainline International	1
Oceanic Casino	1
Total	31

The research made us to understand that Liberia DNFBPs sector is extremely vulnerable to money laundering and the financing of terrorist risks. Liberia has yet to fully cover this sector with respect to the legal framework and the enforcement of AML/CFT regulations.

### 1.7.1 MONEY LAUNDERING RISK RATINGS

The AML/CFT Act 2012 Section 15.1 defines DNFBPs as, Accountants, Dealers in Precious Metals and Stones, Game of chance (casinos), Real Estate Agencies, Lawyers, Notaries, Non-profit Organizations. This sector is required to create employment, generate revenue, and enhance social

and political stability. Measures used to evaluate or rate the sector are dependent on laws/regulations and regulatory authorities' enforcement of compliance with the laws and regulations. Liberia as a country is yet to fully cover this sector with respect to the legal framework and the enforcement of AML/CFT regulations. The FIU has created sensitization and awareness to cover the entire sector. The FIU has also expanded its collaboration with the National Lottery Authority. As a result of this collaboration, on August 17, 2018 both entities developed a circular for STR and CTR reporting for the gaming sector. Also, on December 2018, the FIU and the Ministry of Finance and development Planning (NGOs section) developed a circular for STR/CTR reporting for the NGO/NPO sector.

This sector is critical to the overall performance of the national economy and contributes significantly to the country's GDP, which was put at US\$3.27 billion in 2017 and US\$3.28 billion in 2018 respectively<sup>77</sup>. The mining sector, especially gold, had a major impact in this year on year growth. It is not clear, however, how much the DNFBPs collectively contribute to the GDP, since for example, accountants and lawyers are employed across every sector of the economy. Most dealers in precious minerals and metals also operate informally in this sector.

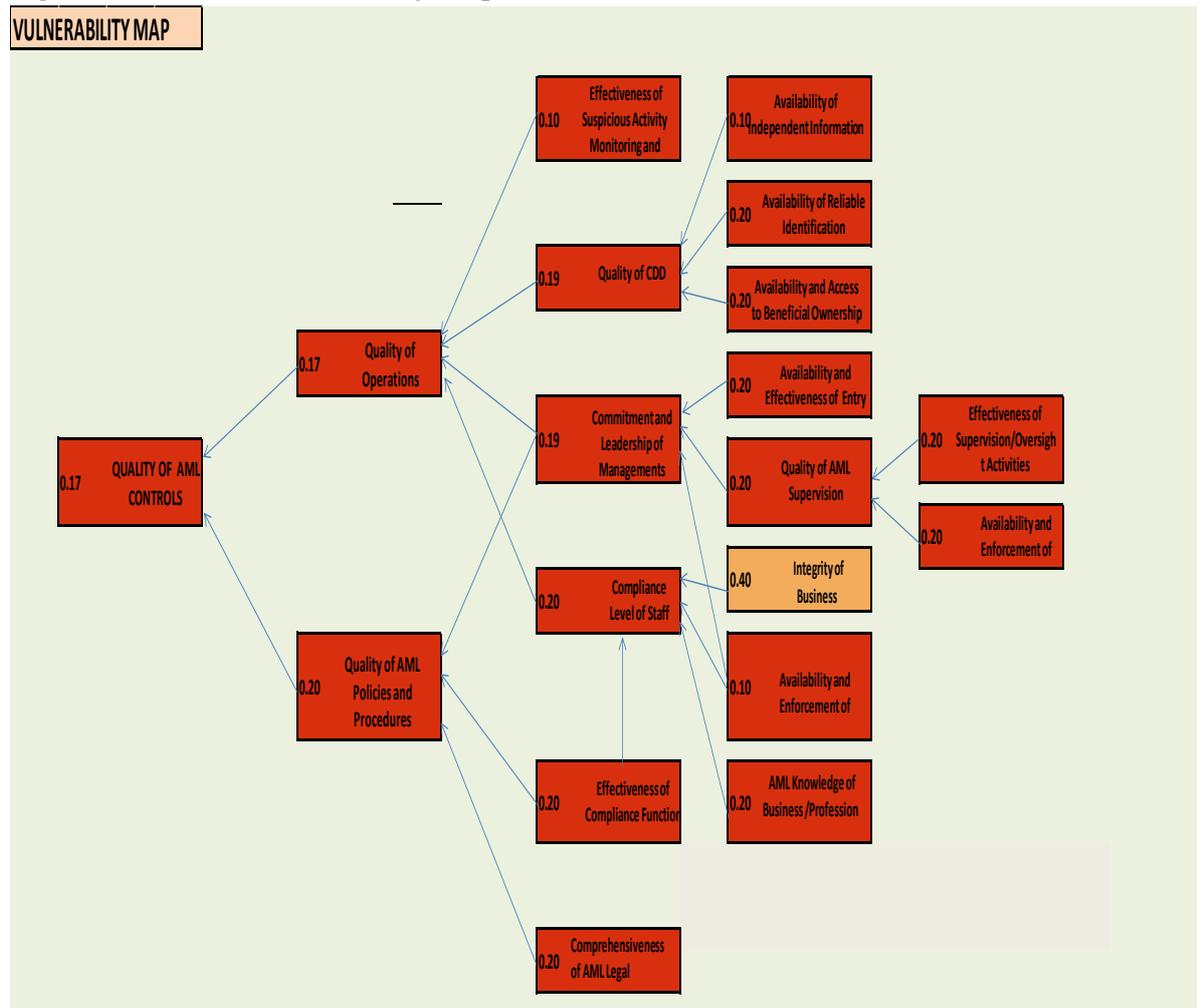
The real estate sector is yet to be formally organized. At the moment, there is an association of contractors and engineers that are basically involved with construction contracts for natural and legal persons and not with the construction, purchase and sale of real estates, as it is with the business of real estate agents or companies.

Table 5: ML Assessment Rating for DNFBPs

Sector	ML Assessment Rating			
	ML	Risk Rating	TF	Risk Rating
Accountants	Very low	0.2	Very low	0.2
Lawyers	Very low	0.2	Very low	0.2
Game Of Chance	Medium low	0.4	Medium low	0.4
Notaries	Close to nothing	0.1	Close to nothing	0.1
Dealers In Precious Metals And Stones	Close to nothing	0.1	Close to nothing	0.1
Car Dealers	Close to nothing	0.1	Close to nothing	0.1
Real Estate	Does not exist	0.0	Does not exist	0.0
Total Vulnerability Rating		1.4		1.4

<sup>77</sup> World Bank Annual Report on Liberia 2018

Figure 3: DNFBPs Vulnerability Map



## 1.7.2 PLAYERS IN THE INDUSTRY

### 1.7.2.1 GAME OF CHANCE

The National Lottery Authority (NLA) was established by the Lottery Act of 2014 which sets it as the regulatory arm of the sector. The NLR Gaming Regulation 001 and, along with it, shall govern the operations of gaming in Liberia. This Amendment to NLA gaming regulation 001, covers positioning of gaming machines, licensees in zones where casinos are located, eligibility of sports betting for licenses as a gaming machine and authorized numbers of sports betting licenses that grant the Authority.

The AML Act, 2012 (ACT 749) as amended, requires each casinos (as an “Accountable Institution”) to appoint an Anti–Money Laundering Reporting Officer, conducts customer due diligence and reports currency and suspicious transactions to the FIU. Currently, there is not much enforcement of these requirements by the regulatory body, thus making this sector very vulnerable to ML/TF risks and activity.

Casinos and other games constitute imported parts of the DNFBPs sector, and are risky entities in term of ML/TF in any nation including Liberia, due to the use of huge sum of money in their transactions. At January 2017, there were (7) seven Casino registered with the National Lottery Authority. All seven registered casinos are owned by foreign nationals, mostly Lebanese, and patronized largely by foreigners who also operate other forms of businesses in Liberia. Small number of Liberians also patronizes such casinos.

### **1.7.2.2 CASINO**

Operations of Casino in Liberia are regulated by the National Lottery Authority (NLA) promulgated by the Gaming Regulations 001 to effectively regulate the gaming sector in Liberia pursuant to the National Lottery Act and to comply with internationally accepted principles or responsible gaming, which became effective on July 22, 2016, in the exercise of power of the Authority under section 5.6 of the Lottery Act of 2014, and chapter 82, of Liberia code of Law Revised (LCRL). These regulations are hereby promulgated.

### **1.7.2.3 SPORT BETTING**

In recent times, there has been a significant increase in the number of sports and betting companies across the country. Thus, though the number of casinos is very low with respect to the size of the Liberia economy, the emergence of these sports and other betting agencies has further heightened the ML/TF risks of the sector. There is a weak supervision and the lack of disclosures, which makes it challenging to determine the volume of transactions undertaken by casinos and the other games of chance, the sector is viewed to be highly vulnerable to Money Laundering activities.

There is a significant sport-betting environment in Liberia, which is growing fast. Also, slot machines and other similar gaming machines are becoming popular. In other countries, heavy use of such machines by the young and unemployed is considered huge indication of money laundering.

### **1.7.2.4 DEALERS IN PRECIOUS METALS AND STONES**

The mineral and mining sector is regulated by the Ministry of Lands, Mines and Energy. It also serves as the main Agency for the coordination and implementation of policies relating to mining; it ensures compliance with Liberia's mining and mineral laws and regulations. In spite of the legal, institutional, regulatory and supervisory framework, the sector remains highly vulnerable to money

laundering and terrorist financing activities, due largely to a lack of focus on and enforcement of AML/CFT control measures by the supervisory bodies.

Most transactions in the sector are cash based and this serves as an attraction for dealers in precious metals and stones. Therefore, this sector is highly attractive to money launderers.

Liberia is a resource-rich African Country but has failed to realize the earlier expectations of rapid development due to the negative impacts of the resource booms, such as the strengthening of the national currency and the diversion of capital and skilled labor into the resource sector, rendering others, sustainable, sectors uncompetitive, and the subversion of resource rents by the elites, curtailing the rate of reinvestment into economic growth.

The Ministry of Lands, Mines and Energy has over the years accomplished a number of tasks in the areas of contracting concession investment in the mineral sector by awarding numerous mineral rights instituting reform in the land sector by adopting policies to control the illicit trafficking of deeds, providing safe drinking water by conducting research in water quality analysis with help from many institutions (Governmental, NGOs, PVOs, International organizations, etc.), the compilation of data with the aim of producing a new mineral resources map of the Country, and the supervision and controlled monitoring of the alluvial mining sector. Though no data was acquired from the entity regulating this sector and the institutions themselves, but on a larger scale with respect to the status of the AML/CFT regime of the country, nothing has been done so far to put in measures to prevent the use of the sector for ML or TF activities.

#### **1.7.2.5 CAR DEALERS**

The Ministry of Transport is responsible to administer and implement the Transport Laws; 4 of Title 38, expand all aspects of Transportation; Land, Rail, Air and Sea. Supervises and regulates the development and standard of all modes of transportation and provide reliable up to date statistics in the Transport Sector.

These are regulated sectors but continue to be vulnerable to money laundering because of the ability to capitalize large quantities of cash, as well as manipulate similar services and schemes, such as mortgages, and the establishment of candidates in situations where unrecognizability is required.

Pursuant to Chapter 37, Section 373 of the 187 Act of Legislature creating and establishing the Ministry of Transport in the Executive Branch of Government, car dealers are covered and

regulated based on transportation measure. AML/CFT measures are to be put in place to guide the sector. Supervision is lacking, this group remains vulnerable and does not have one umbrella body. The group remains largely unregulated in Liberia since there is no legislation that specifically governs their operation. Several car dealers in the country deal in the buying and selling of cars. Some are authorized.

The car dealers in the formal sector maintain an inventory on the sales and purchases of cars. They also stock spare parts and are involved in service provision for clients. Most car dealers, especially those in the informal sector accept cash as the most common method of payment, and are thus a potent avenue through which criminals can launder money.

In Liberia, car values do not depreciate as quickly as they do in other countries. Therefore, not only do these sectors provide a shelter for money launderers, it is likely that their funds will increase in value steadily and remain treasured.

#### **1.7.2.6 REAL ESTATE**

The real estate sector is yet to be formally organized and regulated. There is no single body responsible for activities in that sector. Bulk of the real estate market is being dominated by foreigners, and it is believed that most of them are fronting for senior level officials of Government, past and present. The real estate sector in Liberia is a very profitable sector depending on the location of the property. Another factor discovered is that most real estate properties are on leased lands, which are traceable to prominent Liberian families. Due to our laws, which prohibit non-Liberians from land ownership, most of the lands are also purchased in the name of minor children born by Liberian mothers. The real estate sector is not organized as a professional body. There is great potential for the sector and it is also seen as the best option to invest.

#### **1.7.2.7 LAWYERS**

Liberia National Bar Association (LNBA) was established on February 4, 1907 by an act of the National Legislature. The LNBA is comprised of lawyers, judges and law students. The Bar is an independent, ethical, and improved judiciary and legal education system in which access to and the administration of justice are effectively managed, benefiting all in Liberia. The Bar promotes access of justice, legal professional ethics, effective administration of justice, and enhances fraternal bond among LNBA members and between the association and Bars of foreign Countries.

The Bar membership is limited to Liberians who are graduate of any recognized law school in Liberia or abroad. Such person must have sat and passed the Bar exam, and was thereafter, qualified and admitted to practice law in Liberia. The Bar membership is in twofold, Attorneys-At-Law and Counselors-At-Law. Like in many jurisdictions, this sector is one of the controversial sectors that has not been fully covered by AML/CFT measures. Liberia, however, has not taken any step to this end.

#### **1.7.2.8 NOTARIES**

In Liberia, the President shall nominate and by and with the advice and consent of the Senate, appoint and commission as many notaries' public for each county as he shall deem necessary and proper. The term of the commission of a notary public shall be two years, subject to renewal by the President or removal at his pleasure. Notaries public shall have the power and it shall be their duty to demand acceptance and payment of checks, promissory notes, bills of exchange and other negotiable instruments; to protest such instruments for non-acceptance and nonpayment; to take down, certify and acknowledge affidavits and other documents and written instruments; and to exercise such other powers and perform such other duties as may be prescribed by common law, commercial usage and the law of nations.

A notary public shall receive a fee of one dollar for the performance of each notarial act requiring his seal and signature. Require documents to notaries are Birth certificate, marriage license/certificate, corporate record, death certificate, court affidavits, educational document, diploma, degree, transcript, power of attorney, last will & testament, notarized document or any kind of document created in Liberia.

#### **1.7.2.9 ACCOUNTANTS**

The main objectives of Liberia Institute of Certified Public Accountant (LICPA) according to Section 7 of the Act which established LICPA is to represent, promote and regulate the accountancy profession in Liberia, in the public interest. Accordingly, to achieve these primary objectives the operational activities of the Institute are: to set, monitor and enforce accounting, auditing, other assurance, education, ethics and other professional standards of general and specific application in Liberia; license qualified individuals and firms to engage in public accounting in

Liberia; and supervise the conduct of all persons, firms and individuals, who engage in public accountancy in Liberia<sup>78</sup>.

In addition to its objectives, Section 8 of the LICPA Act authorizes the Institute to have and perform wide range of functions, which include the regulation of the accounting and accounting related consultancy as well as the professional conduct of accountants and auditors in Liberia by establishing and enforcing accounting, auditing and other assurance engagement standards in Liberia. The LICPA also determine, set adapt and promulgate quality control standards and rules of general and specific application to accounting and auditing in Liberia that are appropriate for the private sector of Liberia.

LICPA also determines, adopts and promulgates quality control standards and assists audit firms with their implementation. The LICPA implements Quality Assurance requirements to ensure the quality of the work undertaken by auditors; and ensure proper implementation of Quality Control Standards as defined in this Act. The LICPA, among other things, is responsible to establish disciplinary mechanisms for investigating and disciplining members for breach of the Institute's regulations. Lastly, the LICPA promotes the integrity and enhances the status of the accountancy profession in Liberia including the declaration of any particular business practice to be undesirable for all, or a particular category of accountants.

Though there were no data acquired from LICPA during the assessment on AML/CFT measures put in place for the sector, but it is known by the fact that the country has not initiated any AML/CFT framework for the accountancy sector, it is believed that this sector is highly vulnerable to ML/TF.

### **1.7.3 FINDINGS AND CONCLUSION**

- The DNFBPs Sector lacks the relevant AML/CFT Regulations, awareness, for which the sector is vulnerable to ML/TF risks.
- Considering the research conducted on this sector, only the Game of Chance sector has in place AML/CFT regulation being developed. The rest of the sectors do not have AML/CFT regulation in place.

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<sup>78</sup> <http://licpa.org.lr/index.php/about-us/functions-of-licpa/>

The FIU will coordinate efforts with relevant supervisory bodies to design & implement AML/CFT supervision, compliance monitoring & enforcement systems for each DNFPB sector/subsector. Relevant laws will be amended or developed to ensure that risk-based and tailored obligations of DNFPB entities and responsible officials are clearly articulated. The FIU will also work with relevant agencies to coordinate training & awareness raising as the AML/CFT control, supervision & monitoring systems are implemented.

#### 1.7.4 RECOMMENDATION

- That the country moves swiftly into the DNFBPs sector to put in measures to prevent, detect, ML and TF activities due to the vulnerability rating from the assessment.
- That FIU assumes responsibility to regulate sectors that are unregulated and put in appropriate AML/CFT measures.
- That FIU collaborates with regulatory agencies that are slow in responding to calls for AML/CFT measures for their institutions promptly.

## CHAPTER 2 – TERRORIST FINANCING RISK

### 2.1 OVERALL ASSESSMENT OF TERRORIST FINANCING RISK (TERRORISM, INCLUDING TERRORIST FINANCING) THREAT ASSESSMENT

#### 2.1.1 TERRORISM

Considering the growing proliferation of terror acts in the world today, Liberia is no exception. Given its weak security and AML/CFT regimes, Liberia stands a high risk of being attacked by terror group or used as a medium for terrorist financing. In May of 2018, the government of the United Kingdom issued terrorist alert on Liberia indicting possibilities of terror attacks based on the experiences of Mali, Ivory Coast and Burkina Faso, especially Ivory Coast that borders Liberia. Amidst these alarming notifications, law enforcement and judicial databases could not record a conviction of terrorism or financing thereof. *Terrorism threat was rated low.*

#### 2.1.2 TERRORIST FINANCING THREAT ANALYSIS

The AML/CFT Act 2012 section 15.4, subsection 1 defines the offense of Terrorist Financing<sup>79</sup>

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<sup>79</sup> "Any person or body corporate, or other legal entity, commits the offense of terrorist financing that willfully, directly or indirectly provides or collects funds, or attempts to do so with the intention that they should be used or in the knowledge that they are to be used in whole or part: a) in order to carry out a terrorist act; or b) by a terrorist to facilitate that person's activities related to terrorist act or membership in a terrorist organization; or c) by a terrorist organization".

It was reported in 2017 that hard-core operatives of various terrorist organizations in the Sahel region, mainly the Front de Liberation de Macina, are using Liberia's loose financial system to remit money here in Liberia and to destinations across the world<sup>80</sup>. Accordingly, on March 2, 2017, the Front de Liberation de Macina<sup>81</sup> merged with three active terrorist groups in Mali including al-Qaeda in the Islamic Maghreb to intensify terror activities in the West African region, where Liberia is situated. Usually, violent Islamic movements are conducting reprisal attacks against countries that are combating their mass killing crusade. Considering that Liberian soldiers were/are amongst troops fighting to dislodge those jihadist militants in north and central Mali, Liberia is highly likely to be a target for reprisal.

In 2018, having the appearance of a legitimate firm, the three brothers with purported Malian links who were arrested in Monrovia by national security officers for allegedly using their illegal Transfer Services system in Monrovia to facilitate terrorism financing and money laundering<sup>82</sup>. While the Central Bank's regulation on money transfer requires that any remittance exceeding the US\$5,000 threshold should be channeled through the banking system, the arrestees' Transfer Service was remitting in a single transactions amount such as \$10,000; 50,000; \$24,000 and \$99,000 United States dollars<sup>83</sup>. On one occasion, a notorious terrorist operative was one of those transferring Money to the country and in one instance, US\$1million was transferred.

Electronic data show and extracted confession proved that the business acting against security authorities' caution and CBL's regulation opted to secretly deal with terrorists on Liberian soil and remitting to them several thousand United States dollars<sup>84</sup>. Owners/managers were incarcerated at the Monrovia Central Prison on the orders of the magistrate handling the case at the Temple of Justice.

In addition, in early 2018, the United States Department of Treasury's Office of Foreign Assets Control (OFAC) published the names of six (6) individuals and seven (7) entities that had been

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<sup>80</sup> <https://allafrica.com/stories/201807240779.html>

<sup>81</sup> <https://jamestown.org/program/the-sahels-militant-melting-pot-hamadou-kouffas-macina-liberation-front-flm/>

<sup>82</sup> <https://allafrica.com/stories/201807240779.html>

<sup>83</sup> <https://allafrica.com/stories/201807240779.html>

<sup>84</sup> <https://allafrica.com/stories/201807240779.html>

placed on OFAC’s Specially Designated Nationals and Blocked Persons List based on OFAC’s determination prohibiting U.S. persons from generally engaging in transactions with them.<sup>85</sup>

Terrorist Financing threat rated **Low**

### 2.1.3 NPOs AND NGOs

The nonprofit organizations sector accounts for a significant number of economically engaged people outside of the government and private sectors of the economy. In Liberia, especially, they are the channel through which, at least, 70 percent of aid-flow to Liberia are made. The sector is a very important economic actor in the economy and very critical to the issue of money laundering and terrorist financing.

The NPO sector in Liberia is regulated by the Ministry of Finance and Development Planning (MFDP). It comprises of 725 NPOs in total. Categorically, they are either National or International NPOs; 124 of these NPOs are International based while 601 are National or Local NPOs. NPOs are further classified into 12 different sectors as follows:

No.	Sector	Quantity
1	Arts, Culture, Tourism and Media Development	9
2	Agriculture	142
3	Conservation and Forest Management	5
4	Crisis Prevention & Peace Building	20
5	Education/Literacy and Training	198
6	Energy	6
7	Environment and Natural Resources	15
8	Gender, Child Protection, & People with disability	110
9	Health Care/HIV & AIDS	122
10	Human Rights and Rule of Law	28
11	Infrastructure & Community Development /Water Sanitation	44
12	Youth Development, Training and Job Creation	26

<sup>85</sup>Federal Register/ Vol. 83, No. 26 / Wednesday, February 7, 2018 / Notices

All 725 NPO in the sector are required to register in adherence to the **Not-For-Profit Corporation Act** of 1977.

Not with standing, in December of 2018, the MFDP in conjunction with the FIU issued an AML/CFT Circular for all NPOs informing them of their AML/CFT Obligations. The Circular requires all NPOs to take additional AML/CFT steps to complete an application for accreditation through their Regulator, (MFDP) within 90 days of registration. It also covers the **Renewal of Accreditation** after a year, a **Compliance Program, Reporting Obligations** and **Suspicious Transaction Reporting** to the FIU if they have any reasonable suspicion that donor or recipient of funds are engaged in Money Laundering, Terrorist Financing or other financial crimes.

According to the Regulators, an audited financial report, yearly activities report, reference letter from the relevant sector ministry/agency on NGO performance in the last accredited period, a list of all staffs, Capital assets and equipment, activities report for the last accreditation period approved and validated by the relevant sector ministry/agency and organizational structure are some of the pre-requisites for renewal of accreditation of an NPO and are also used to monitor them.

The sector is vulnerable to money laundering and terrorist financing because of the inadequacy of regulations and limited capacity to enforce compliance. The Ministry of Finance and Development Planning, for example has regulatory authority over the nonprofit sector but limited monitoring and enforcement tools to curb suspicious transactions; thus, rendering the sector vulnerable. In December 2018, the FIU and the Ministry of Finance and development Planning (NGOs section) developed a circular for STR/CTR reporting for the NGO/NPO sector. Not much has been done in this sector to ensure full coverage of the sector in the fight against ML and TF.

The GIABA Secretariat Analysis of the 9<sup>th</sup> Follow Up Report of Liberia in November 2018 indicated that Under SR VIII, the MER of 2010 noted a number of deficiencies including: lack of review of the NPO sector; absence of the requirement for NPO's to maintain appropriate records of domestic and international transactions; the lack of processes to ensure that timely information on the features or activities of NPO's is available; a lack of awareness of the vulnerability of NPO's to TF and ML by oversight ministry; the lack of mechanisms to prevent NPO's from being used as conduits for TF; a lack of outreach and awareness programmes to NPOs; the absence of a mechanism at the responsible ministry to facilitate response to international requests and the lack of sanctions.

Terrorist Financing threat for NPOs/NGOs was rated **high**

## 2.2 CONCLUSION OF THREAT ASSESSMENT

Liberia has a significant market for smuggled goods, which are easily imported through its long, porous borders-as earlier mentioned. Almost unmonitored diamond and gold mining in border areas and opaque trading networks continue to be of concerns. The culture of willful blindness to predicate and other crimes as well as the culture of impunity relating to the prosecution of public officials who are involved in corruption and bribery, tax evasion, etc. The relative openness of Liberia's economy, dual currency regime, coupled with its craving for foreign investment make the country vulnerable to illegal business activities, including money laundering and terrorist financing<sup>86</sup>. Moreover, an important challenge is that most Anti-graft and Law Enforcement Agencies are underfunded and under-capacitated in terms of human resources and expertise.

The financial sector needs more enforcement efforts on policies, procedures, and controls for money laundering and terrorist financing being the gateway through which most illegal funds generated from corruption, bribery, tax evasion, drug trafficking, etc. are channeled for ease of movement internally and externally. Most financial institutions lack automation that will filter customers against domestic and international PEP list, local/regional/international terrorist lists, etc. Policies and procedures on wire transfers are often not adhered to in most businesses and individuals wiring money for purchase of goods do not provide invoices, while individuals wiring money for family support do not show, prove. The vulnerability in this sector has increased the appetite of the above predicate offenses in the country thus increasing the overall ML threat of the country.

Second to the financial sector for its vulnerability and ML threat is the Designated Non-Financial Businesses and professions sector. This sector is yet to be fully covered with AML/CFT preventive measures including the effective supervision of some key sectors like real estate, gaming, dealers in precious metals/Jewelry/Arts, travel agencies, vehicle sellers (Used and new), etc. Lack of effective AML/CFT measures in place for the DNFBPs sector is a factor that has entice money launderers and terrorist financiers to use the sector to move dirty money into the sector for cleaning and/or for terroristic purpose.

A major factor for the increase in the predicate offenses outlined above and the overall ML rating to be **high** is that counter ML measures put in place in some sectors and not effective to prevent, detect, and deter money laundering while other sectors in the regime remain vulnerable to ML/TF.

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<sup>86</sup><https://www.state.gov/documents/organization/239329.pdf>

## 2.3 RECOMMENDATIONS FOR THREAT ASSESSMENT

Based on the assessment of the ML/TF threats deriving from the prevalent predicate offenses and the findings and conclusion outlined above, the below are recommendations to wit:

1. The Government should build the capacity and support the institutions responsible for the prevention, detection, and prosecution of financial crimes especially ML/TF with automated analytical capabilities and technical experience to enforce regulations, investigate financial crimes effectively monitor illicit money flows, and conduct successful prosecutions, adjudication, and asset recovery being key efforts to developing a robust AML regime.
2. Liberia should seek to improve the enforcement of all legislations in the financial sector especially on foreign exchange transactions, wire transfers, and declaration of currencies at entry/exit point, and corporate debt and securities activities since they are amongst key channels used to move dirty money derived from the most prevalent predicate crimes above.
3. Liberia should continue to work with international partners to ensure that laws, regulations, and policies meet international AML standards.
4. That Liberia moves from the dual currency regime to a single (Liberian Dollar) currency regime.
5. That the outcome of this Risk Assessment should be used to inform policy measures and improve data collection on ML & TF in Liberia.
6. That Liberia swiftly move to cover the DNFBPs sector with AML/CFT measures to prevent, detect and deter criminals from the use of the sector to launder money. Where there seems to be no supervisor/regulator, FIU should assume responsibility to regulate or have AML/CFT oversight responsibility.

## CHAPTER 3 – FINANCIAL INCLUSION PRODUCTS RISK ASSESSMENT

Liberia assessed the money laundering/terrorist financing risk in financial inclusion products in Liberia, which is in compliance with recommendation 1 of the Financial Action Task Force (FATF) standards. Financial inclusion is the process of ensuring that an average Liberian has access to financial services on a timely manner and at an affordable cost. In other words, financial inclusion is the process of facilitating those sectors and segments of the population that are outside the formal financial system, to become a part of the system. Financial Inclusion Initiatives of the Central Bank of Liberia focus on two key deliverables:

### a. **Delivery Of Financial Services**

With a large portion of the Liberian population living within the rural area, Central Bank of Liberia has been focusing on means of delivering financial services to this sector of the population and integrating them into the formal economy.

**b. Enhancing Access to Finance**

In recognition of the Government of Liberia's goal of obtaining a middle income status by 2030 via the implementation of a development agenda that democratizes prosperity and 'lift' Liberians, the Central Bank of Liberia Board of Governors recognized that access to finance remained a critical barrier for Liberians and reached a decision to develop innovative means of stimulating the general economy through improving access to finance opportunities for Liberians to accomplish the following:

- increasing access to medium term financing;
- creating an environment for private sector job creation;
- improving and empowering the Liberian-owned business segment of the economy;
- providing needed financing to rehabilitate the agricultural sector; and
- addressing microloans loan portfolio needs.

The Microfinance and Financial Inclusion Unit became a strategic conduit to the achievements of these objectives. To further enhance the inclusion of the under privileged in the finance sector, the CBL launched a program reforms to modernize the National Payments System (NPS) and to bring the systems in line with international standards for safety and efficiency. The Large value and retail payment systems are important components of the reforms as they are necessary to support the authorities' financial stability and financial inclusion goals. Payment services are often the gateway to the use of banking and other financial services, facilitating access to credit and supporting economic development, especially among the rural poor. In furtherance of the Central Bank of Liberia's public policy goals, the CBL and the Government must coordinate with the banks and other payment service providers to ensure broad-based access to a wide range of electronic payment instruments and promote their use.

**OBJECTIVES OF RISK ASSESSMENT OF FINANCIAL INCLUSION PRODUCTS**

Risk Assessment of financial inclusion products was undertaken by the country with a view to understand money laundering (ML) and terrorist financing (TF) risks that may arise from both existing and any emerging products and services being offered in Liberia and exploring the room for simplifications in AML/CFT measures in low risk situations. The country's desire in undertaking risk assessment of financial inclusion products is also aimed at ensuring that the

outcomes of the assessment assist financial regulators and various market players in undertaking the following:

- designing or redesigning products or services as the case may be;
- putting in place necessary mitigating measures and
- reviewing of existing policies and practices including legislation.

The country's achievement in effectively undertaking these parameters as informed by the outcomes of the risk assessment will ensure that financial inclusion products contribute to the safety and integrity of the financial systems.

According to the FATF, financial exclusion and its risks can occur when persons do not have effective access to appropriate and affordable formal financial services and therefore have to seek their financial services from informal providers in the cash economy. The risks include financial crimes committed by informal service providers, threats to the integrity of formal financial services, social exclusion and continued extreme poverty and consumer protection risks.

The financially excluded and underserved groups include low-income households, handicapped individuals in rural communities and undocumented migrants in both developed and developing jurisdictions. They are also those who currently have access to financial services but in a limited manner. The underserved can also be those who have access but are not using it because of barriers such as problems in meeting the documentary and other requirements, non-awareness, wrong perceptions, limited knowledge, high cost, etc.

### **3.1 LEGAL AND REGULATORY FRAMEWORK OF THE FINANCIAL SECTOR IN LIBERIA**

The banking sector Regulator, the Central Bank of Liberia (CBL), is at the forefront of improving financial inclusion in Liberia. This is hinged on its role in the financial system and the consequential effect of most transactions conducted in other sub-sectors such as insurance, securities and pension, which are eventually consummated through banks.<sup>87</sup> The following are the pieces of legislation in the financial sector that promotes financial inclusion:

#### **3.1.1 REGULATIONS FOR THE LICENSING AND OPERATIONS OF CREDIT UNIONS IN LIBERIA**

This regulation empowers CBL to regulate, monitor, and supervise all bank financial institutions and nonbank financial institutions. The purpose of these regulations is to provide minimum

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<sup>87</sup> FLA 1999

regulatory requirements, prudential standards and operational guidelines required of credit unions, which seek to offer savings deposit and loans services to their members.

### **3.1.2 REGULATIONS FOR NON-BANK FINANCIAL INSTITUTIONS (NBFIS)**

This regulation regulates the establishment, operations and business conduct of Non-bank financial institutions that provide credit but do not accept deposits from the public.

### **3.1.3 REGULATIONS CONCERNING AML/CFT FOR FINANCIAL INSTITUTIONS IN LIBERIA**

This regulation requires financial institutions to adopt and fully implement effective internal AML/CFT control policies and procedures applicable to all customers, products, services, business lines, branches and subsidiaries.

### **3.1.4 REGULATIONS CONCERNING AGENT BANKING IN LIBERIA**

These regulations are intended to define the roles and responsibilities of agents and provide a channel by which financial institutions can enter into agency relationship with competent entities and/or individuals that will transact within the local communities to reach to all segments of the society with a range of financial services.

### **3.1.5 REGULATIONS FOR RURAL COMMUNITY FINANCE INSTITUTIONS**

These regulations are intended to promote the safety and soundness of the RCFIs, ensure efficiency and sustainability of their operations, and protect public funds/deposits entrusted to and managed by them;

- (ii) To ensure professionalism and integrity in the provision of financial services through deposit mobilization and granting of credits to individuals and small-scale operators, farmers and marketers who may not obtain such services from large financial institutions; and
- (iii) To provide minimum standards that rural residents shall observe in establishing, managing, and controlling their own financial institutions.

### **3.1.6 MOBILE MONEY REGULATIONS**

These Regulations are set out by the Central Bank of Liberia to achieve the following objectives:

- (a) To make retail payment systems and the financial sector more efficient.

- (b) To extend the reach of the formal financial sector to the unbanked Liberians and poor segment of the society, giving them access to a wide range of financial services.
- (c) To promote financial inclusion while applying sufficient safeguards to mitigate any stability or integrity risk, extending safe and convenient financial services to the poor and unbanked population.
- (d) To ensure a wide participation of all regulated institutions in the provision of Mobile Money Services as set forth in these regulations.

## **FINANCIAL INCLUSION PRODUCT ANALYSIS**

### **3.2.1 RISK ASSESSMENT TOOL**

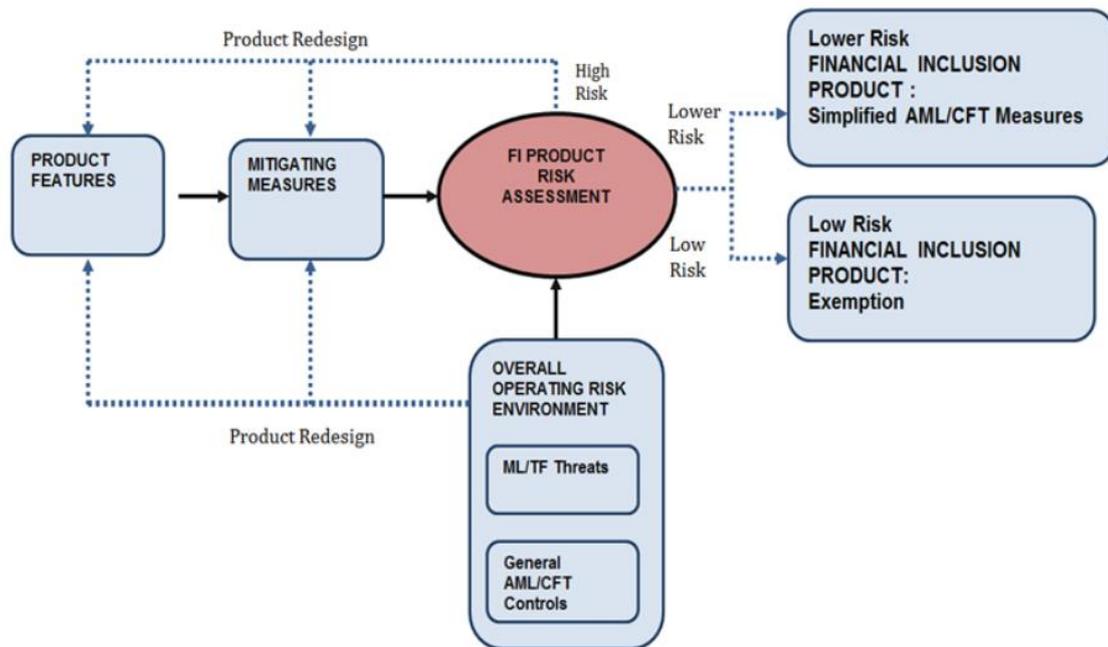
The Financial Inclusion Risk Assessment Tool assists the country in evaluating money laundering and terrorist financing risks arising from both existing and emerging financial inclusion products. The tool can be used by financial supervisory authorities in the design of risk-based approach framework. The first part of the tool includes all the key questions mainly focusing on specific features of the financial inclusion product. The second part of the tool covers the overall ML/TF risk environment in the country. Thus, taking these answers into account, the potential threats of ML/TF in the country and the associated control measures in place have been evaluated. The third and final parts of the tool provide the country with the initial ML/TF risk level for each specific product feature. The tool offers guidance questions on mitigating potential high risks (see figure for reference)

### **3.2.2 PRODUCT GROUPS**

The Working Group received seventeen (17) out of the total number of forty-one (41) questionnaires that were sent to the entities. From the assessment, undertaken, financial inclusion products fall in either of the following categories:

- (i) deposit products- normal savings and fixed deposit accounts;
- (ii) local money remittances;
- (iii) mobile money accounts and remittances;
- (iv) group-based savings and credit accounts
- (v) unit trusts;
- (vi) E-Wallets.

Figure 4: ML/TF Risk Assessment Tool for Financial Inclusion Products



### 3.3 BANKING SECTOR

Questionnaires were sent to nine (9) commercial banks listed as in table 9 below. Telephone Follow-up calls were made to nine (9) commercial banks and responses were received from nine (9) banks only. And onsite interviews were conducted with all nine (9) banks.

#### 1. Mobile Money Services

Questionnaires were sent to two (2) entities offering mobile money services.

#### 2. Micro Finance Institutions

In this sector, questionnaires were sent out to ten (10) entities.

#### 3. Village Saving and Loans

In this sector, questionnaires were sent out to twenty (20) entities.

### SUPPLY OF MICROFINANCE

In Liberia, microfinance activities are carried out by five types of institutions as follows:

- Microfinance bank
- deposit-taking MFI
- non-deposit taking MFIs
- rural community financial institutions
- credit unions

The microfinance sector is small in Liberia. Currently, Liberia has one microfinance bank, one (1) deposit-taking MFI, twelve (12) non-deposit taking MFIs, approximately two hundred seventy-five (275) credit unions, and eleven (11) RCFIs. In total, these institutions serve approximately ninety-five thousand (95,000) clients. Two (2) international players, Access Bank and BRAC, dominate the microfinance market. Access Bank has approximately fifty thousand (50,000) clients of which eleven thousand seven hundred (11,700) are microfinance borrowers. BRAC, a non-deposit taking MFI, has nineteen thousand one hundred sixty (19,160) clients who are active borrowers. In terms of the loans outstanding, Access Bank and BRAC account for USD 12.4 million, or approximately 91 percent of the market. In contrast, Diaconia, a local deposit taking MFI serves one thousand (1,308) clients of which eight hundred fifty-eight (858) are active borrowers with loans outstanding of approximately USD 800 thousand. Credit unions and RCFIs serve approximately twenty-two thousand (22,000) clients or about 23 percent of total clients. The non-deposit taking MFIs excluding BRAC play a minor role in the microfinance market with less than three thousand (3,000) active borrowers and approximately USD 330,000 in loans outstanding (Table 10).

Table 7: Microfinance Market in Liberia as of January 2017

Entity	Total Clients*	% of Sector	Active Borrowers**	Micro loans outstanding in '000 (USD)**
Banks - Access Bank	50,000	53	11,700	8,700
Non-deposit Taking MFIs	21,977	23	21,977	4,000
BRAC	19,160	20	19,160	3,670
Credit Unions	16,447	17	n/a	n/a
RCFIs	5,523	6	n/a	71
Deposit Taking MFI - Diaconia	1,308	1	858	800
Total	95,255	100	34,535	13,571

Source: CBL Supervision Unit - \*Total shareholders used as a proxy for RCFI clients.

\*\*Underestimate for total active borrowers and loans outstanding due to the unavailability of credit union and RCFI data.

### 3.4 REGIONAL CONSIDERATION

Liberia has a smaller microfinance sector compared to its regional counterparts, including Mali, Burkina Faso, and Sierra Leone. As of 2016 year-end, Mali and Burkina Faso had one hundred one (101) and one hundred fifty-one (151) MFIs, respectively. In Mali, the microfinance sector

had loans outstanding of USD 150 and deposits outstanding of USD 106 million during this period while Burkina Faso's sector consisted of USD 209 million in loans outstanding and USD 289 million of deposits outstanding. Mali's microfinance sector has total assets valued USD 205 million. Ghana with a population of 28 million, or roughly 7 times that of Liberia, has five hundred seventy-three (573) registered deposit-taking and non-deposit taking MFIS, which does not include other institutions like their five sixty-five (565) credit unions or their one hundred thirty-nine (139) rural community banks, among others. These five hundred seventy-three (573) MFIs have 168.3 million in deposits, 129 million in loans, and 292 million in assets. Sierra Leone has 7.4 million people and has only fifteen (15) credit MFIs, three (3) MDIs, seventeen (17) community banks, and fifty-nine (59) financial service associations.

Microfinance services are mainly concentrated in and around Monrovia. Banking outlets remain highly concentrated in Montserrado County where the road and communications infrastructure are the strongest. Of the approximately four hundred four (408) bank, MFI, RCFI and credit union outlets throughout the country, more than half are very small credit unions (there are two hundred seventy-five (275) credit unions with an average size of one hundred thirty-three (133) members) operating in remote locations where banks or MFIs are unable to serve. While there appear to be filling up a gap, it is difficult to ascertain a clear picture of the operational and financial health of these financial institutions, as only eighty-five (85) of the two hundred seventy-five (275) are members and provide data to LCUNA, the *de facto* supervisory arm of the CBL. RCFIs, with the apparent weaknesses and irregularities as noted earlier, do not seem to be improving financial access outside of the capital city (Table 11).

Many non-deposits taking MFIs, including all RCFIs, are insolvent. Due to a variety of reasons, from weak governance, a small customer base, lack of concrete plans to grow, and attract capital, most small MFIs in Liberia are insolvent. The lack of capital coupled with inadequate management information systems (MIS) and weak human capacity preclude MFIs from operating profitably and expanding access beyond Monrovia. Access to capital for small MFIs constrains their growth. In many cases, non-deposit taking MFIs are at the mercy of small and irregular capital injections (ranging from USD 1,000 – 5,000) from their owners and/or sponsors. Borrowing from commercial banks is not a viable option as it is expensive with interest rates ranging from 15-20 percent. Severe infrastructure deficits (road, communications and electricity) increase banks and MFIs' operating costs deterring them from expanding in rural areas. While Access Bank was profitable in 2016 (while not so in 2015), most small MFIs lose money, and some have legacy debt

to CBL from serving as a vehicle to channel funds for directed lending programs. Even BRAC's profitability post taxes are very low and almost contingent on grants.

Due to insolvency, weak governance, and other issues, a critical issue constraining the growth of MFIs in Liberia is that some lack the resources to support existing operations and to purchase critical assets, such as vehicles, which serve as a major impediment to serving rural and remote populations. At present, at least one of the four regional credit union (RCUs) staff is not paid, while the RCFI staff receive a stipend. While this is due to the inability of these institutions to earn enough revenue, it may also discourage staff from striving to increase revenue. Furthermore, without access to fast, reliable, and safe transportation, financial institutions are susceptible to theft, as they use public transportation or bicycles to service customers outside of their offices and to go to and from banks. In this setting, financial institutions are also precluded from serving individuals that are too distant from their offices.

Table 8: Financial Institution Outlets in Liberia by County

No.	County	Capital	Population (Census 2008)	Area (km <sup>2</sup> )	Bank branches <sup>1</sup>	MFIs branches <sup>2</sup>	RCFIs <sup>2</sup>	Credit Unions <sup>3</sup>	Total
1	Bomi	Tubmanburg	82,036	1,942 km <sup>2</sup> (750 sq mi)	1	0	0	0	1
2	Bong	Gbarnga	328,919	8,772 km <sup>2</sup> (3,387 sq mi)	3	1	1	6	11
3	Gbarpolu	Bopolu	83,758	9,689 km <sup>2</sup> (3,741 sq mi)	0	0	1	1	2
4	Grand Bassa	Buchanan	224,839	7,936 km <sup>2</sup> (3,064 sq mi)	6	2	0	5	13
5	Grand Cape Mount	Robertsonport	129,055	5,162 km <sup>2</sup> (1,993 sq mi)	1	0	0	2	3
6	Grand Gedeh	Zwedru	126,146	10,484 km <sup>2</sup> (4,048 sq mi)	1	0	0	40	41
7	Grand Kru	Barclayville	57,106	3,895 km <sup>2</sup> (1,504 sq mi)	0	0	1	5	6
8	Lofa	Voinjama	270,114	9,982 km <sup>2</sup> (3,854 sq mi)	2	4	2	18	26
9	Margibi	Kakata	199,689	2,616 km <sup>2</sup> (1,010 sq mi)	10	2	0	5	17
10	Maryland	Harper	136,404	2,297 km <sup>2</sup> (887 sq mi)	4	0	0	13	17
11	Montserrado	Bensonville	1,144,806	1,909 km <sup>2</sup> (737 sq mi)	51	24	0	80	155
12	Nimba	Sanniquellie	468,088	11,551 km <sup>2</sup> (4,460 sq mi)	7	2	3	32	44
13	Rivercess	Rivercess	65,862	5,594 km <sup>2</sup> (2,160 sq mi)	0	0	1	1	2
14	River Gee	Fish Town	67,318	5,113 km <sup>2</sup> (1,974 sq mi)	0	0	1	59	60
15	Sinoe	Greenville	104,932	10,137 km <sup>2</sup> (3,914 sq mi)	1	0	1	8	10
					<b>87</b>	<b>35</b>	<b>11</b>	<b>275</b>	<b>408</b>

Sources: <sup>1</sup>Central Bank of Liberia Annual Report 2015; <sup>2</sup>CBL Supervision Unit; <sup>3</sup>LCUNA – based on LCUNA's mapping of credit unions in Liberia conducted in 2013.

### 3.5 COMMERCIAL BANK TARGETING MICROFINANCE CLIENTS

There is only one commercial bank that targets micro, small, and medium clientele. Established in 2009, Access Bank entered the market with a focus solely on serving micro and small business clientele. The bank offers current and fixed deposit accounts, which can be held in Liberian or in US dollars. The bank also offers three types of loans: micro (up to USD 7,000), supra-micro (USD 7,001 to 20,000) and SME (> USD 20,000) loans. In terms of the number of loans granted, microfinance loans make up 90 percent of their loan book. The duration of all loans ranges from three to 15 months with a monthly interest rate of 6 percent per month on a declining balance.

The bank has standardized lending policies, procedures, and strong MIS capability ensures a healthy loan portfolio. As of January 2017, the bank had a loan portfolio at risk (>30 days) of 4.4 percent. Access Bank was profitable in 2016 with a ROE 7.8 and ROA 1.1, which marks an improvement from negative figures in 2015. Recent challenges in serving the microfinance market has prompted Access Bank to expand into the SME market. Access Bank's main challenges in serving the microfinance market are: 1) high staff turnover – due to labor intensity of the loan officer work; 2) delays of national credit registry inquiries on loans 500 USD and over, which can 2-3 weeks; 3) weak legal and court system – out of 23 cases sent to court only three cases were decided in Access Bank's favor; 4) the exchange rate crisis – growing gap between USD and LRD – borrow in USD and lend some in LRD; and 5) increasing NPLs at 13 percent for micro segment due to a slow economy, exchange rate problem, social unrest, and striking in protest to changes in the tax regime and duties. The bank is beginning to serve the SME market as a diversification strategy, including financing small agribusinesses in structured value chains and offering loans to private schools and health clinics. In fact, recent advertisements throughout Monrovia tout the offer of SME loans of up to USD 300,000.

### **3.6 DEPOSIT-TAKING MFIS (MDIS)**

Although the regulatory environment permits the establishment of MDIs, only one institutions of this type exists in Liberia. Established in 2014, Diaconia is the sole MDI in Liberia. By law, MDIs are required to comply in almost all respects with the standard requirements for commercial banks. The main difference between a commercial bank and an MDI is in share capital requirements. An MDI must provide USD 1 million in share capital as compared to USD 10 million for commercial banks. Diaconia was established in 2014 with assistance from a Norwegian NGO, Mission Alliance. Since then, Diaconia has granted loans totaling USD 2.4 million to approximately two thousand (2,000) clients. As of December 2016, they had a small loan book of USD 800,000 with a portfolio at risk (> 30 days) at 5 percent. Diaconia, however, is not yet profitable, which may in part, be due to its lack of economies of scale due its small size, and/or as Diaconia management noted, the cost of regulatory compliance. As they are deposit-taking institutions, they are required to have compliance and risk departments, and undergo regular risk basis checks by CBL, which increases their overhead expenses. Furthermore, even though they are held to the same standards as a full-fledged bank, they are not able to engage in as many financial activities as banks, such check clearing and foreign exchange, which could generate important fee income for the institution.

### **3.7 NON-DEPOSIT TAKING MFIS**

Although the regulatory requirements are few, only a handful of non-deposit taking microfinance institutions have been established in Liberia. As noted above, this segment of the microfinance supply is dominated by one institution, BRAC. BRAC is an international organization that focuses on providing microcredit to the poor, mainly women. BRAC began its operations in Liberia in 2008. Today, the organization serves about nineteen thousand two (19,200) clients, of which 99 percent are women. The organization has twenty-two (22) service points throughout the country. BRAC's business has been built on one product: small group loans to poor women. With a highly standardized approach and good internal systems, BRAC has grown a loan book of USD 3.7 million loans outstanding with a low portfolio at risk (>30 days) of 2.7 percent. The institution faces key challenges that constrains its growth, such as a lack of capital and liquidity management facilities, high operating costs – the highest of any country that it operates in, and poor road infrastructure and internet connectivity. BRAC would like to become an MDI, but it is concerned of the heavy regulatory costs encountered by Diaconia as noted above.

### **3.8 RURAL CREDIT FINANCE INSTITUTIONS**

From December 2013 to August 2017 and at an overall cost of USD 350,000, CBL promoted the establishment of twelve (12) RCFIs in rural areas of eight counties to promote financial inclusion in areas of need of formal financial services. In addition to selling shares to the community and offering deposit and money transfer services – through Money Gram, Western Union, mobile operators and local transfers – RCFIs provide a channel for salary payments of government workers in their respective counties. RCFIs are permitted to provide loans, but beyond salary advances, only one extends credit due to a lack of capital to do so for the other eleven (11) RCFIs. To establish these institutions, CBL used the services of Afriland First Bank, a local bank whose parent company in Cameroon, oversees a network of over one hundred (100) similar rural micro banks. Under contract with the CBL, Afriland First Bank set up the IT infrastructure of the RCFIs. In addition to having equipped, the Liberian RCFIs, Afriland First Bank now receives the payroll of over five thousand government employees to be paid through the RCFIs. As of December 2016, the RCFIs had five thousand twenty-three (5,523) shareholders, eight thousand forty-one (8,041) government salary and deposit accounts, and approximately USD 495,000 in savings mobilized (Table 12). Beyond a formal agreement to provide IT to RCFIs, there is no formal relationship between RCFIs and Afriland, which outlines the roles and responsibilities of the respective parties. To date, there is much confusion and lack of clarity on the financial activities

between the RCFIs and Afriland. Additionally, there is no reconciled accounting statements between the two entities, making it difficult to determine a proper financial position of each RCFI.

Table 9: Rural Community Financial Institutions (RCFI) - Summary Statistics as of 12/31/2016

NO.	RCFI	Location	County	Established Date	No. of share holders	Share value (USD)	GOL salary accounts	Deposit accounts	Deposits Outstanding (USD)	Loans Outstanding (USD)
1	Totota	Bong	Bong	2/16/2016	125	7,206	3	173	35,330	0
2	Rivercess	Cestos	River Cess	1/30/2015	168	19,175	703	337	19,192	n/a
3	Sinoe	Greenville	Sinoe	3/24/2015	203	13,620	79	484	46,927	n/a
4	Zorlayea	Lofa/zorzor	Lofa	12/15/2015	327	49,822	275	320	64,787	5,931
5	Gbarpolu	Bopolu	Gbarpolu	6/28/2014	343	6,761	718	354	67,003	1,463
6	Gbahlay-Geh	Nimba	Nimba	12/11/2103	346	18,662	357	460	87,127	6,755
7	Nimba	Sanniquellie	Nimba	4/15/2015	420	53,035	33	786	83,195	42,466
8	Barclayville	Grand Kru	Grand Kru	3/28/2014	862	32,765	1638	306	3,002	6,160
9	Kolahun	Lofa/Kolahun	Lofa	12/15/2015	2729	49,178	481	408	56,288	8,042
10	Tappita	Nimba	Nimba	7/16/2016	n/a	60,446	0	126	32,155	0
11	Rivergee	Fish Town	River Gee	4/1/2014	n/a	0	n/a	n/a	n/a	n/a
<b>TOTAL</b>					<b>5,523</b>	<b>310,671</b>	<b>4,287</b>	<b>3,754</b>	<b>495,005</b>	<b>70,816</b>

Source: CBL Supervision Unit

The role of disbursement agent for the government has become the major activity for most RCFIs. Commissions on maintenance of payroll and other government payment accounts represent roughly 70% of the USD 13,000 in revenues booked by RCFIs in March 2017 (Table 14). These revenues allow half of the RCFIs – those in communities with at least 500-600 government employees – to show an operational surplus. The intermediation function, on the other hand, is declining in many of the largest RCFIs, as shown in Table 13.

Table 10: Trends in Shares and Deposits of RCFIs

RCFI	County	Share balance (in USD million)			Deposit balance (in USD million)		
		Jul-2016	Mar-2017	% Change	Jul-2016	Mar-2017	% Change
Barclayville	Grand Kru	0.03	0.00	-88%	0.29	0.00	-99%
Rivergee	Fish Town	0.01	n.a.	n.a.	0.25	n.a.	n.a.
Nimba	Sanniquellie	0.05	0.05	0%	0.20	0.08	-58%
Zorlayea	Lofa/Zorzor	0.09	0.05	-44%	0.13	0.06	-56%
Gbahlay-Geh	Nimba	0.02	0.02	-10%	0.10	0.09	-14%
Totota	Bong	0.02	0.01	-52%	0.04	0.04	2%
Kolahun	Lofa/Kolahu	0.09	0.05	-44%	0.03	0.05	54%
Sinoe	Greenville	0.03	0.01	-60%	0.03	0.05	70%
Tappita	Nimba	0.07	0.06	-9%	0.01	0.02	56%
Gbarpolu	Bopolu	0.01	n.a.	n.a.	0.01	n.a.	n.a.
Rivercess	Cestos	0.02	0.02	-6%	0.01	0.02	97%
<b>Total</b>		<b>0.44</b>	<b>0.28</b>		<b>1.10</b>	<b>0.42</b>	

It is not clear what incentives or dialogue by CBL with local governments helped ensure the participation of communities in the establishments of RCFIs. What is apparent – unless share and deposit balances reported to the CBL are inaccurate – is that some communities are gradually getting their money back from the RCFIs, which would not be surprising since they pay no dividends or interest, and they also do not grant loans. This situation is likely to get worse if the longer the following noted weaknesses and irregularities are left unattended: 1) weak governance and management capacity; 2) discrepancy between RCFI accounts and the accounts with Afriland First Bank, its technical advisor; 3) unclear policies, procedures and responsibilities between RCFIs and Afriland First Bank; 4) no set policy on liquidity management of RCFIs; and 5) weak core banking system and IT infrastructure which is incapable of producing financial reports.

GOL has a pipeline development project funded by the International Fund for Agriculture Development (IFAD), geared at enhancing access to sustainable and affordable rural financial services in Liberia through RCFIs. The objective of the project is to improve access to rural financial services on a sustainable basis and thereby contribute to the economic development of the rural sector. The USD 7.5 million project aims to strengthen existing, as well as create 15 new rural community financial institutions (RCFIs) in Liberia.

The project consists of the following components: (1) Rural financial services (USD 6.5 m) to create and enhance RCFIs; (2) Enabling environment for rural finance (USD 0.6m) to support the CBL for improving the existing regulatory framework for rural finance and supervisory systems; and (3) Program Management Unit (USD 0.56m) to coordinate project activities and reporting. Under component one, a technical assistance and supervision unit (TASU) will be established within the Central Bank to provide the TA and support to the RCFIs. It is envisaged that halfway through project implementation the TASU will be transformed into a Technical Assistance Advisory Company (TASC) owned by the RCFIs. Its board of directors will be comprised of majority of RCFIs representatives, plus representatives from the CBL and the Ministry of Agriculture and the Ministry of Finance and Development Planning. As per the project design – the TASU/TASC will present itself as a for-profit advisory services organization, charging fees starting in the third year of the project. In addition, TASU/TASC will be required to perform supervisory function delegated by the CBL of the RCFIs.

The TASC/TASU approach to the supervision of RCFIs does not follow the tiered risk-based approach and RCFIs are not able to afford paying for its TA. This approach appears to run counter to the best practice approach of developing a cohesive tiered risk-based regulatory framework for

the microfinance sector, in which institutions are regulated by their risk to consumers and the financial sector. This is because the customer base is very small, and they are not turning deposits into loans. Additionally, RCFIs are insolvent due to several reasons, so their ability to pay for services from TASU/TASC will be difficult. This said, RCFIs require capacity building and their supervision would best be subsumed under a tiered-regulatory approach.

### **3.9 CREDIT UNIONS**

Credit unions contribute marginally to the microfinance sector. While credit unions have existed since the 1970s, they have not materialized into a robust and strong federation as is seen in other countries in the region. In Liberia, with a few notable exceptions, credit unions are not well-managed, do not operate sound management information systems (MIS), are not properly governed and supervised, and they offer only basic services. Prolonged civil unrest and wars severely disrupted, and in many cases, destroyed credit unions' development. One credit union visited during a World Bank mission said that they are still recovering from losses due to assets that were stolen by a board member during the war, approximately USD 500,000. At the start of the war, this credit unions had six hundred thousand (6,000) members while today it serves only three hundred twenty-seven (327) members.

Efforts to revitalize the CU sector have not yielded the desired results. In 2012, the GOL tried to revive the CU system with a technical assistance project from UNCDF and WOCCU to strengthen the governance and administrative structure of the system. The project focused on building four model credit unions in regional towns, known as Regional Credit Unions (RCUs). The project provided the capital investments to establish the credit unions for building, MIS, equipment, staff training, etc. The intention was to grow each RCU to a membership base of ten thousand (10,000) members, the target for becoming profitable and sustainable.

However, all four credit unions fell well short of this target (Table 14). The manager at the one functional RCU said it was difficult to mobilize members because of the poor reputation that credit unions have had in the country. The project ended early and never attained its objectives, mainly due to weaknesses in the project design, but also due to the Ebola crisis. Today, the remaining RCU suffers the same similar deficiencies of the primary credit unions and has not advanced.

Table 11: Membership of Regional Credit Unions as 2014.

Regional CU	Membership			
	Male	Female	Total	% of Target
Multi-National	765	670	1,470	15
United Progressive	274	356	630	6
Trust Saving	912	442	1,354	14
Unity Saving	884	752	1,636	16
<b>Total</b>	<b>2,835</b>	<b>2,220</b>	<b>5,090</b>	

Source: CBL Supervision Unit

### 3.10 INFORMAL VILLAGE SAVINGS AND LOAN ASSOCIATIONS

Village savings and loan associations (VSLAs), a type of informal accumulating savings and loans association, play an important role in expanding access to finance for the rural poor. Village savings and loan associations are an important source of capital for the rural poor. A VSLA is a group of people who save together and make small loans from those savings. The activities of the group run in cycles of one year, after which the accumulated savings and the loan profits are distributed back to members. VSLAs provide a simple savings and loan solutions for communities without financial services. In 2014, to coordinate the VSLA movement in Liberia, the National Apex of Village Savings and Loan Association (NAPEX), with support of the CBL, was established. NAPEX was created to coordinate the efforts of the donors and to establish a centralized platform to dispatch training and funding, like the CBL's LEAF funding. To date, there are approximately 2,300 VSLAs registered with NAPEX.

There are three voluntary professional associations working with the microfinance sector in Liberia. The Network of Microfinance Institutions of Liberia (NEMIL) works with the MDI and the non-deposit taking MFIs. The credit unions are supported by Liberian Credit Union National Association (LCUNA). At present eighty-five (85) of the two hundred seventy-five (275) credit unions are members. The National Apex of Village Savings and Loans Associations (NAPEX), was created to coordinate donor efforts to establish VSLAs in Liberia.

These associations have an important role to play in strengthening the sector and advocating for its constituents behalf, but are not currently fully fulfilling this mission due to the lack of resources and some capacity constraints noted in a forthcoming section.

## **3.11 PRODUCT FEATURES**

### **3.11.1 MTN/ORANGE MOBILE MONEY**

MTN/Orange Mobile Money Services are designed for MTN/Orange customers to send and or receive money from anywhere in Liberia on their phones in real-time. The services are also used for purposes of paying utility bills and purchase of airtime. In addition to individual customers, corporate customers can use the facility for bulk payments such as salary payments. The facilities have thresholds in both value of transaction and number of transactions that can be carried out and cannot be used by anonymous persons both within the country and cross borders. Although the product permits non-face-to-face transactions, CDD requirements regarding such transactions are improved by the details of the parties to the transactions maintained on the database for sim-card registration for the parties.

The product assessment indicated that the services are not vulnerable to significant ML/TF and mainly attributed to effective monitoring mechanisms and controls, as well as supervision by the regulator. The ML/TF risk for the product was assessed as low. Part of the low nature of ML/TF mobile money can be attributed to the level of supervision. CBL has conducted examination, including AML/CFT, of the two mobile money providers. Additionally, these mobile money providers are constantly supervised and they submit regular returns to the CBL. The product qualifies for simplified AML/CFT measures because of the following;

- (i) Daily transactional limits of equivalent to US\$1,000.00<sup>88</sup>.
- (ii) The products are used by low-income earners.
- (iii) Mobile provider itself does the registration of the phone sim card. They have a database for the records of calls and messages of its customers and track the customer.

### **3.11.2 CREDIT UNION BANK SAVINGS PAYMENT**

Credit Union Bank Payment Service is a product designed mainly for low-income earners without bank accounts or based in places that do not have banking facilities. The service enables clients to deposit, receive money, pay bills and or send monies to friends or relatives. This payment facility does not allow cross-border transactions and therefore does not have transfers to and from high-risk jurisdiction countries.

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<sup>88</sup> REGULATION NO. CBL/RSD/003/2014/15

### **3.11.3 RCFI/ RURAL BANKS**

This product provides fundamental banking services such as deposits, provision of loans, for lower income groups/community dwellers and market women. The value of transaction and number of loan transactions are limited which can be attributed to the level of funds availability. These customers are not allowed to carry out cross border transactions.

## **3.12 OVERALL OPERATING RISK ENVIRONMENT**

### **3.12.1 MONEY LAUNDERING/ TERRORIST FINANCING THREATS**

The assessment of Financial Inclusion products undertaken indicate that there is no significant use of the products in the generation of proceeds of crime or any significant use to perpetrate terrorist activities in the country. This is so because the volume and frequency of transactions are low,; they are in hard to reach areas and lack the three key components that support digital financial services (product and services, distribution models and back office solution) that are often interrelated along with low institutional and staff capacity to handle the level and skill of ML/TF deals.

### **3.12.2 GENERAL AML/CFT CONTROLS**

#### **3.12.2.1 MARKET ENTRY CONTROLS**

From the Assessments made on the responses to the questionnaire and interviews, it was noted that there are market entry controls such as “Fit and Proper” test requirements for the providers of financial inclusion products. Entities desirous of indulging in financial inclusion business are subject to CBL licensing requirements.<sup>89</sup>

#### **3.12.2.2 ESTABLISHMENT OF MONITORING MECHANISMS**

On further assessment through interviews, however, it was noted that some institutions especially in the insurance sector need to put in place robust mechanisms for detecting unusual and suspicious transactions as it relates to financial inclusion products. This is significant because they are a crucial part of the financial sector of the economy; thus, they could be used to clear laundered money and terrorist financing by investing in insurance products and services and their shares.

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<sup>89</sup> REGULATION NO. CBL/RSD/003/2014/part1/6

### **3.12.2.3 POLICIES, PROCEDURES AND GUIDELINES TO EXAMINE AND/ OR MONITOR RISKS ARISING FROM FINANCIAL INCLUSION PRODUCTS**

The assessment reveals that framework as it relates to operators of financial inclusion products is still undergoing some developments in some institutions while the supervisory authorities have however, due to current statutory framework, inserted matters of monitoring risks arising from financial inclusion products.

### **3.13 GEOGRAPHICAL-COUNTRY RISK**

All the respondents reported that the Financial Inclusion products do not allow customers to conduct cross border transactions. Therefore, they may not have additional risks visible from cross border transfers. In financial institutions, transfers are carried out through bank accounts and these accounts are required to have a higher level of CDD measures. Therefore, the risk of funds received from or sent to high-risk jurisdictions is very low, especially for Financial Inclusion products.

### **3.14 AML/CFT TRAINING/ AWARENESS PROGRAM**

The Assessment indicates that mainly banks staff in financial institutions had undergone some level of AML/CFT training that enables them to distinguish and report unusual or suspicious customers and transactions when dealing with Financial Inclusion products and that management is committed to enhance awareness on matters of AML/CFT. However, follow-up interviews and field visits indicated that efforts were needed by some sectors such as insurance and microfinance institutions to provide regular AML/CFT training especially to staff operating in the branch offices.

### **3.15 FINDINGS AND CONCLUSION**

The key finding was that the microfinance regulatory and supervisory framework in Liberia is not based on a comprehensive tiered risk-based approach, where MFIs are regulated and supervised according to the risk they pose to the financial sector and consumers. Instead, the current regulatory and supervisory framework attempts to regulate and supervise uniformly by institution type.

Furthermore, the various pieces of microfinance regulations might not be feasible for institutions to meet. RCFIs cannot meet all the prudential standards set out in the RCFIs regulations (Rural Community Financial Institutions, CBL/RSD/002/2016), and they are separate from the MDI regulations despite having a similar business line. MDIs, Non-deposit taking MFIs, RCFIs, and credit unions are not under a tiered risk-based approach that regulates according to risk. Moreover,

the non-deposit taking MFIs are not under comprehensive regulations despite providing credit to over 21,000 consumers with some loans approaching USD 10,000, and many institutions do not meet the requirements, including report. Since 2015, CBL has not issued new licenses for non-deposit taking MFIs, but they are still allowed to continue operating. Credit union regulations (Credit Unions Regulation, No. CBL/RSD/001/2015) are not operational and aim to uniformly regulate a diverse sector that in its current stage of development and the risk it poses, may not require heavy regulations.

Furthermore, the current supervisory approach requires more physical and financial resources than CBL currently utilizes. The general supervisory capacity is also a challenge, and it requires improvements on both sides – the regulator and the supervised institutions. As a result, the microfinance sector is not effectively regulated and supervised, which consequently does not provide the institutional framework to incentivize MFIs to professionalize and grow. Liberia has nine (9) commercial banks with a network of ninety (90) branches, fifty-one (51) of which are in Montserrado County. The use of ATM and point-of-sale (POS) machines also remains low. The limited infrastructure and access points provided by formal financial sector institutions is a key barrier to achieving financial inclusion. With this limited infrastructure, it has been difficult to reach a heavily rural population, with approximately 3.4 million or 75% of Liberia’s population living outside Monrovia (IMF 2013 estimate). Liberia’s financial sector is bank dominated, as is typical of low-income developing countries.

### **3.16 RECOMMENDATION**

The key recommendation is that a tiered risk-based approach be adopted. This is the approach taken by several other countries in Africa such as Kenya, Uganda, and Ghana. In these countries, the financial system regulatory framework permits a wide range of institutional providers of microfinance services in a tiered structure, and the microfinance sectors appear to be much larger, consist of more diverse institutions, and have better prospects for self-sustainability.

Below, are key recommendations listed which were necessary in order to develop a comprehensive tiered risk-based microfinance regulatory framework:

- Introduce Amendments to various regulations such as Microfinance Deposit-taking Institutions (MDI) Regulation 2012, No. CBL/RSD/004/2012, Rural Community Financial Institutions, CBL/RSD/002/2016, and Credit Unions Regulation, No. CBL/RSD/001/2015 among others to reflect the tiered risk-based approach and tier

categorization. Such Amendments will entail setting capital thresholds and other requirements for Tier 3 to distinguish from small deposit taking MFIs in Tier 4, and the incorporation of the activities of large RCFIs and credit unions, among others.

- The Central Bank of Liberia (CBL) should set an original vision in a National Money Strategy to “foster a national ecosystem of mobile money in Liberia that promotes economic growth, contributes to financial inclusion, increases transparency and reduces waste of public resources.” With the evolution of the DFS pillar in the National Financial Inclusion Strategy, CBL can promote an augmented and refined two-pronged addition that encompasses both the ecosystem and for end-users.
- Central Bank of Liberia, with the support of the Alliance for Financial Inclusion (AFI) developed the National Strategy for Financial Inclusion (2014-2018). The NSFI presented an assessment of the achievements over five previous years and shared the current state (at that time) of financial Inclusion in Liberia, areas of strategic focus, challenges and barriers, and a plan to address these. The definition of financial inclusion used in the NSFI is “a state where adults have access to a broad range of financial services that they are able to understand and use without constraints and barriers, which are designed to meet their needs at cost that are within their means.”

## FINDINGS AND CONCLUSION

### OVERALL ML RISK LEVEL

The overall aim of the national Risk assessment exercise was to determine the ML/TF risk in Liberia. The national risk level is the function of overall ML threat and vulnerability in a jurisdiction. As can be observed in the chart below, the national risk is found at the intersection of overall threat and overall vulnerability, which is HIGH. This is the result of a high overall ML threat and high overall vulnerability identified in the AML/CFT system.

**OVERALL MONEY LAUNDERING RISK IN THE JURISDICTION**

<b>OVERALL THREAT</b>	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		<b>OVERALL VULNERABILITY</b>				

### 1. OVERALL NATIONAL THREAT OF MONEY LAUNDERING/ TERRORIST FINANCING

The threat assessment exercise sought to identify ML threats pose to Liberia's AML/CFT regime. Various predicate offenses characterized the overall level of ML threat in the country. The exercise concluded that the overall ML threat in the country is high while **TF threat was rated low**. The high overall ML rating of threat is attributed to the following predicate crimes which pose significant threats to Liberia:

- Corruption and bribery
- Illicit trafficking in narcotic drugs and psychotropic substances
- Tax evasion
- Trafficking in human beings and migrants smuggling
- Currency counterfeiting.

## **2. OVERALL VULNERABILITY TO MONEY LAUNDERING/TERRORIST FINANCING**

The national vulnerability assessment study aimed to determine overall ML national vulnerability pose to the AML/CFT regime in Liberia. The overall national vulnerability is the function of vulnerabilities in the banking, insurance, securities, other financial institutions, NPOs, and DNFBPs sectors. In conclusion, the overall national vulnerability was found to be high mainly due to high sector vulnerabilities in DNFBPs.

The national risk assessment study was a self-assessment of the Liberia AML/CFT regime, which was undertaken to determine the overall risk pose by the operations of financial institutions and DNFBPs sectors. The result of the exercise would be used to inform national authority and other AML/CFT stakeholders to take risk-based actions to address weaknesses in the country AML/CFT system as well as allocate resources based on such actions.

The study found the following:

- The overall threats posed to the Liberia AML/CFT system is high;
- The overall national vulnerability is high
- The control of cross-border movement of currency and bearer negotiation instrument is weak;
- The implementation/enforcement of current AML/CFT legal and regulatory instruments is inadequate;
- Insufficient resource allocation to law enforcement, regulatory and competent authorities including judiciary to counter ML/TF;
- Ineffective AML/CFT sanction regime;
- Low level of AML/CFT knowledge and capacity across law enforcement, regulatory, and competent institutions including judiciary authority;
- Low level of AML/CFT knowledge among reporting entities in the regime;

The study concluded that the overall ML risk pose to Liberia AML/CFT system is high and policy makers and other national stakeholders should take prompt and concrete steps to address the situation.

## RECOMMENDATIONS

The Risk assessment exercise revealed the risk posed to the Liberia AML/CFT regime is real and national authorities and other stakeholders must take tangible steps to address the weaknesses and gaps in the regime. Some of the concrete steps needed to address the weaknesses and gaps include, among others:

1. Provide adequate awareness and sensitization training for law enforcement, civil society, NPOs, legislature, private sector, particularly the DNFBPs, etc.
2. Build the AML/CFT technical capacity and skills of enforcement, regulatory, and competent authorities including judiciary in the country to ensure an effective implementation of legal instruments;
3. Provide adequate resources to the FIU, law enforcement agencies, regulatory agencies, and the judiciary to ensure effective enforcement of AML/CFT laws and regulations;
4. Review and amend existing AML/CFT laws and regulations to ensure that they address the identified risk in the regime;
5. Supervisory authorities should conduct off and on-site examinations of their regulated entities to ensure compliance with AML/CFT laws and regulations;
6. Regulatory and enforcement authorities should take effective, dissuasive, and proportionate sanctions/penalties consistent with AML/CFT violations;
7. Ensure that reporting entities build the capacity of their compliance staff and front desk officers in ensuring timely and effective detection of unusual transaction relating to ML/TF.

In the wake of the ever-changing ML/TF environment and the resultant challenges it poses, these recommendations tend to address the identified vulnerabilities while at the same time strengthening the integrity and soundness of the financial system.

## APPENDIX

### Ratings / Scoring of Vulnerability Variables

Variable	Score	Rating
Quality of AML Policy and Strategy	0.30	Low
Effectiveness of ML Crime Definition	0.80	Very High
Comprehensiveness of Asset Forfeiture Laws	0.50	Medium
Quality of FIU Intelligence Gathering and Processing	0.70	High
Capacity and Resources for Financial Crime Investigation	0.20	Very Low
Integrity and Independence of Financial Crime Investigators	0.20	Very Low
Capacity and resources for Financial Crime prosecutions	0.20	Very Low
Integrity and Independence of Financial Crime Prosecutors	0.40	Low Medium
Capacity and Resources for Judicial Processes	0.30	Low
Integrity and Independence of Judges	0.30	Low
Quality of Border Controls	0.20	Very Low
Comprehensiveness of Customs Regime on Cash and Similar Instruments	0.70	High
Effectiveness of Customs Controls on Cash and Similar Instruments	0.20	Very Low
Domestic Cooperation	0.20	Very Low
International Cooperation	0.50	Medium
Formalization Level of Economy	0.20	Very Low
Level of Financial Integrity	0.30	Low
Effectiveness of Tax Enforcement	0.70	High
Availability of Independent Audit	0.50	Medium
Reliable Identification Infrastructure	0.60	Medium High
Independence Information Sources	0.60	Medium High
Access to Beneficial Ownership Information	0.20	Very Low

Table 2: Valid STR & CTR Recorded from 2015 to 1<sup>st</sup> Half 2018

Description	2015	2016	2017	2018 1 <sup>st</sup> half	Total of reports
STR	46	48	107	39	240
CTR	4,499	114,906	167,427	79,474	368,529
Disseminated	2	10	23	6	41

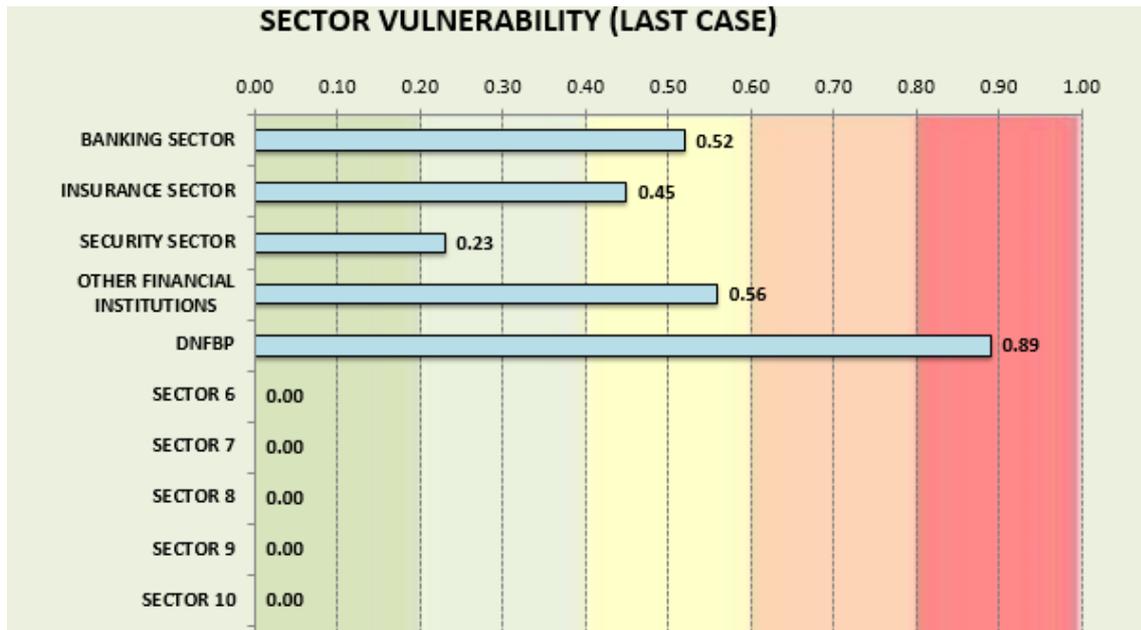
Priority Ranking Among Sectors

PRIORITY RANKING AMONG SECTORS - LAST CASE/SCENARIO*	PRIORITY RANKING**
BANKING SECTOR	2
INSURANCE SECTOR	4
SECURITY SECTOR	
OTHER FINANCIAL INSTITUTIONS	3
DNFBP	1
SECTOR 6	
SECTOR 7	
SECTOR 8	
SECTOR 9	
SECTOR 10	

Priority Ranking for Input Variables – National ML Combating Ability Factors

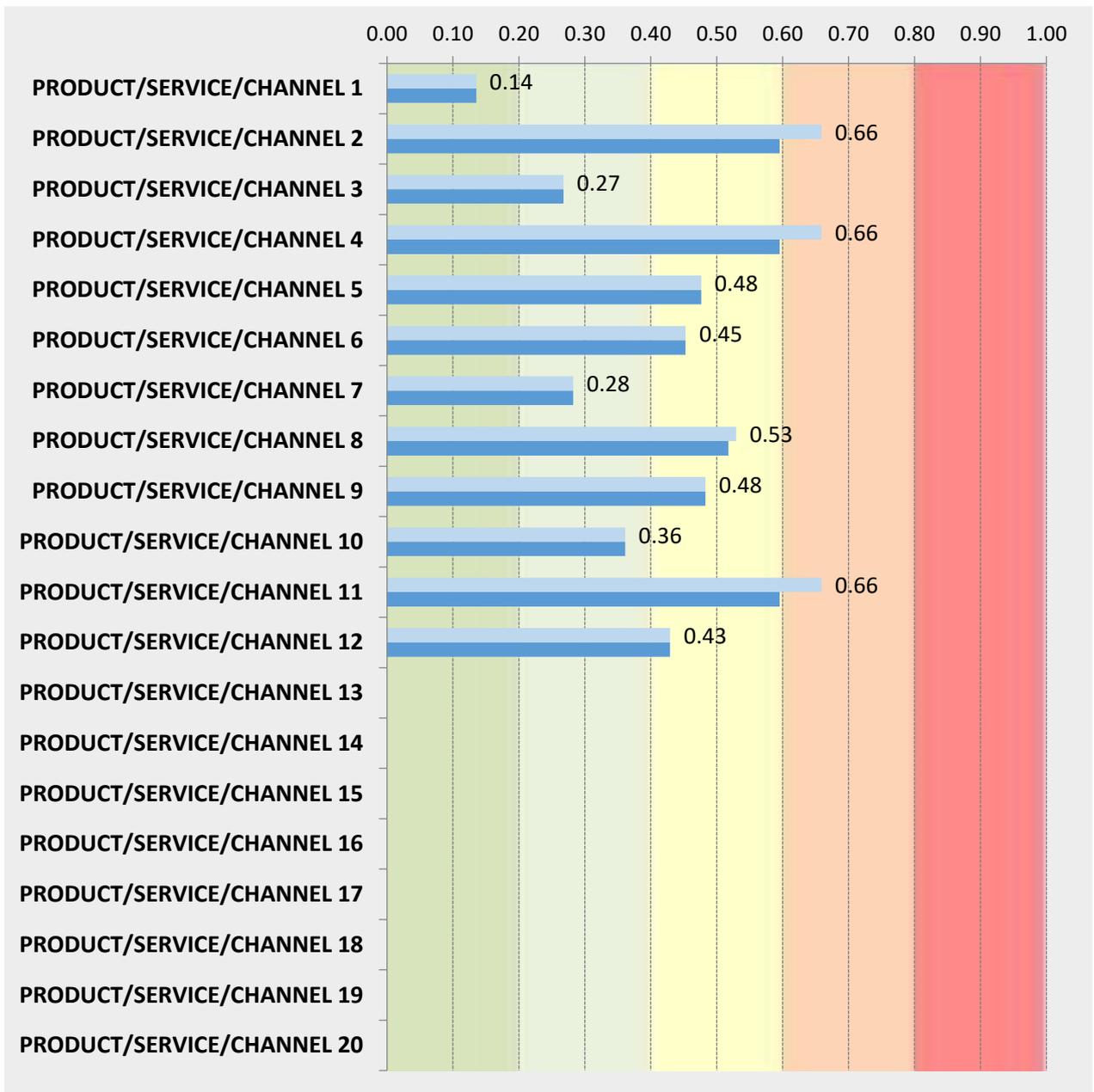
PRIORITY RANKING FOR INPUT VARIABLES/NATIONAL ML COMBATING ABILITY FACTORS – LAST CASE/SCENARIO*	PRIORITY RANKING**
Quality of AML Policy and Strategy	1
Effectiveness of ML Crime Definition	
Comprehensiveness of Asset Forfeiture Laws	12
Quality of FIU Intelligence Gathering and Processing	
Capacity and Resources for Financial Crime Investigations (incl. AF)	2
Integrity and Independence of Financial Crime Investigators (incl. AF)	3
Capacity and Resources for Financial Crime Prosecutions (incl. AF)	4
Integrity and Independence of Financial Crime Prosecutors (incl. AF)	5
Capacity and Resources for Judicial Processes (incl. AF)	6
Integrity and Independence of Judges (incl. AF)	6
Quality of Border Controls	14
Comprehensiveness of Customs Regime on Cash and Similar Instruments	17
Effectiveness of Customs Controls on Cash and Similar Instruments	11
Effectiveness of Domestic Cooperation	10
Effectiveness of International Cooperation	13
Formalization Level of Economy	8
Level of Financial Integrity	16
Effectiveness of Tax Enforcement	
Availability of Independent Audit	18
Availability of Reliable Identification Infrastructure	15
Availability of Independent Information Sources	19
Availability and Access to Beneficial Ownership Information	8

## All Sector Vulnerability

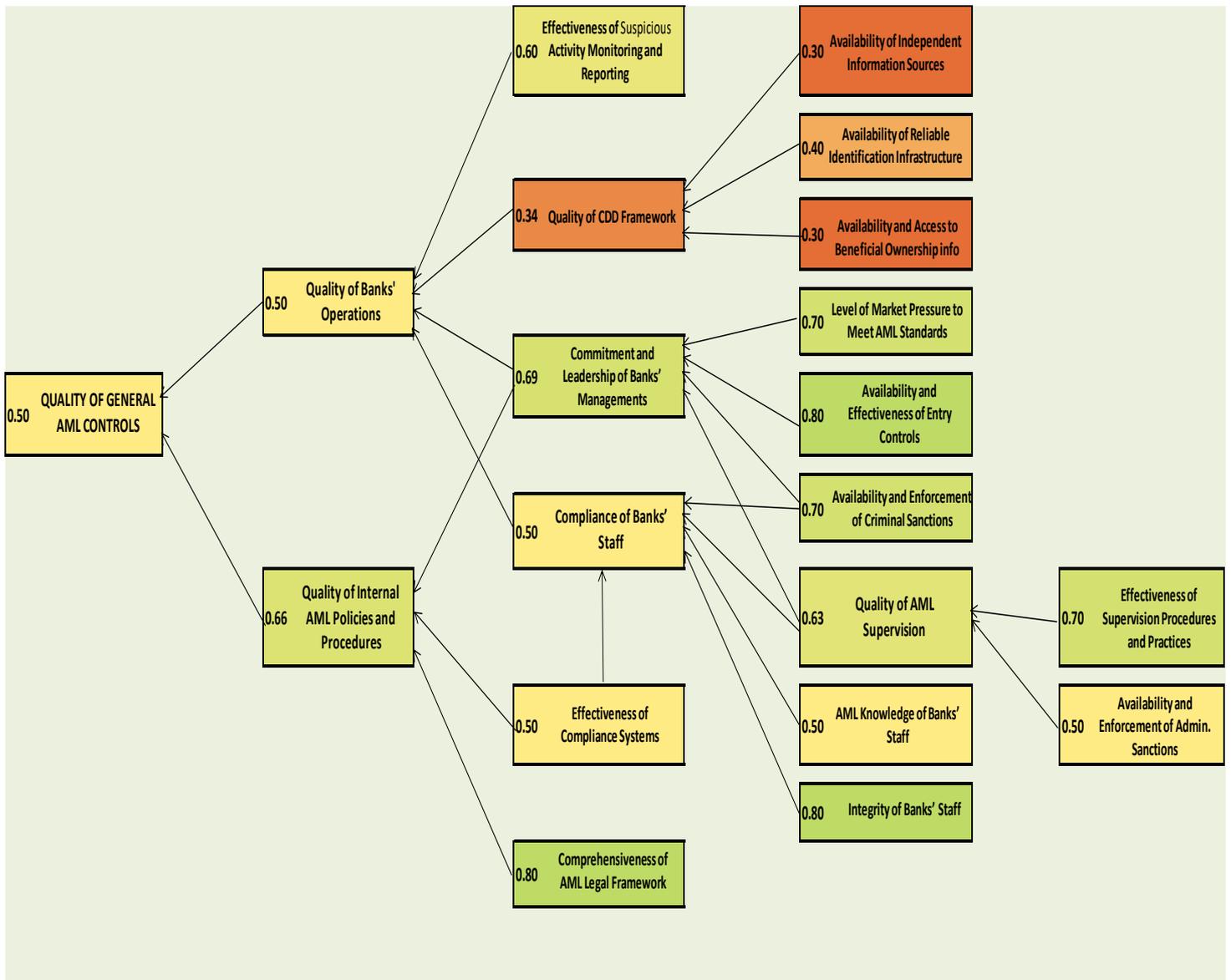


## Vulnerability Rating for Insurance

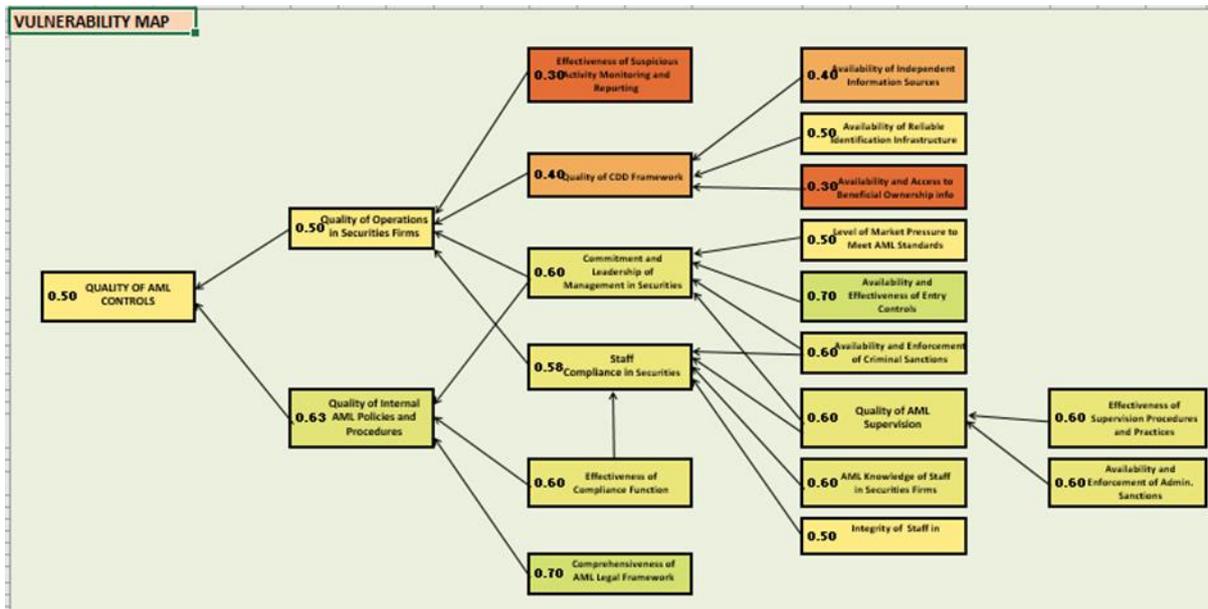
No.	General Input Variables	Assessment Rating
1	Comprehensiveness of AML Legal Framework	0.5
2	Effectiveness of Supervision Procedures and Practices	0.3
3	Availability and Enforcement of Administrative Sanctions	0.5
4	Availability and Enforcement of Criminal Sanctions	0.5
5	Availability and Effectiveness of Entry Controls	0.8
6	Integrity of Staff in Insurance Companies	0.5
7	AML Knowledge of staff in Insurance Companies	0.3
8	Effectiveness of Compliance Function (Organization)	0.3
9	Effectiveness of Suspicious Activity Monitoring and Reporting	0.4
10	Level of Market Pressure to Meet AML Standards (Optional)	0.1
11	Availability and Access to Beneficial Ownership Information	0.3
12	Availability of Reliable Identification Infrastructure	0.4



## Vulnerability Map of Banking Sector



# Vulnerability Map for Security Sector



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