

ZIMBABWE



THE SECOND MONEY LAUNDERING AND TERRORIST FINANCING NATIONAL RISK ASSESSMENT KEY FINDINGS.

FEBRUARY 2019



DIRECTOR-GENERAL'S INTRODUCTORY REMARKS

The NRA process continues to be a pivotal tool for an effective and guided effort by the National Taskforce and ancillary stakeholders towards evaluating, mitigating and monitoring money laundering, terrorist financing, and proliferation of weapons of mass destruction risks.

In 2015, Zimbabwe undertook and successfully completed its first NRA, using local and acceptable international standards, and determined that about USD1, 8 billion was being lost, annually, through illicit activities.

In line with the FATF recommendations, to undertake such a process every five years, the country carried out another NRA in 2019, which concluded that the figure lost through illicit transactions had dropped to USD0, 9 billion. .

This is a pleasing development and the result was largely achieved through a conceived effort by stakeholders responsible for improvements in the legislative framework, effectiveness of the law enforcements, and, better collection, analysis and dissemination of information on suspicious activity. Improvement in plugging of smuggling gaps, more gold collection for Fidelity among other things contributed significantly towards curbing leakages.

As we focus on the future, more effort will be applied towards continuous improvement in our ways of combating illicit behavior in the financial economy, in line with the general standards set by the Financial Action Task Force in its recommendations.

It is important to remain alert as the dynamics in the global financial economy, like the development of virtual currencies, are moving fast.

Adhering to the guiding international standards remains our umbilical cord to the global financial economy. It is an option second to none.

FOREWORD

(Minister of Finance and Economic Development)

Zimbabwe remains committed to the implementation of internationally acceptable anti-money laundering, combating the financing of terrorism and proliferation of weapons of mass destruction frameworks.

This will create an economic environment that will enhance confidence of local and foreign investors, and guarantee the safety and insulation of their precious financial resources from contamination from proceeds generated by criminals.

A robust and safe framework will facilitate the building of strong linkages with the world's financial communication, and promote Lines of Credit, trade and other pivotal linkages, consistent with the thrust of the government to rebuild the economy.

Government has already made a firm commitment to work with the Financial Action Taskforce, in all areas necessary for Zimbabwe to align with the required standards.

It is therefore important for stakeholders to play their role in meeting our local and international obligations towards mitigating the impact of illicit behavior in the financial economy.

I am confident that the current efforts to profile Money Laundering and Terrorist Financing risks will go a long way in providing guidance on where and how to plough our resources in providing counter resources.

All these initiatives will be buttressed by the current threat government to ensure that requisite laws and regulations are appropriately fine tuned to achieve the set immediate objective and long term goals.

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ACRONOMYS

ACCA	Association of Chartered Certified Accountants
AML	Anti-money laundering
AML/CFT	Anti-money laundering and combating the financing of terrorism.
ESAAMLG	Eastern and Southern Africa Anti Money Laundering Group.
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CIMA	Chartered Institute of Management Accountants
DAIP	Detailed Action Implementation Plans
DNFBPs	Designated Non-Financial Businesses & Professions
ECRA	Environmental Crime ML/TF Risk Assessment
EMA	Environmental Management Agency
FATF	Financial Action Task Force.
FIU	Financial Intelligence Unit.
IAC	Institute of Administration and Commerce
ICAZ	Institute of Chartered Accountants of Zimbabwe
ICPAZ	Institute of Certified Public Accountants of Zimbabwe
ICSAZ	Institute of Chartered Secretaries & Administrators in Zimbabwe
ICTAZ	Institute of Certified Tax Accountants of Zimbabwe
IESBA	International Ethics Standard Board of Accountants
IFAC	International Federation of Accountants
ICRG	International Committee Review Group
KYC	Know Your Customer
MER	Mutual Evaluation Report
MFFU	Mineral, Flora and Fauna Unit
ML	Money Laundering.

MLPCA	Money Laundering and Proceeds of Crime Act.
MTA	Money Transfer Agency
MOU	Memorandum of Understanding
NPS	National Payment Systems
NRA	National Risk Assessment.
NRACC	National Risk Assessment Coordinating Committee
NTF	National Task Force on Money Laundering and Terrorist Financing.
PAAB	Public Accountants and Auditors Board
RTGS\$	Real Time Gross Settlement Dollars
SAAA	Southern Africa Association of Accountants
TF	Terrorist Financing.
UBO	Ultimate Beneficial Owner
UNODC	United Nations Office on Drugs and Crime
USD	United States Dollars
WBG	World Bank Group
ZSE	Zimbabwe Stock Exchange

ASSESSMENT OVERVIEW

KEY FINDINGS.

MONEY LAUNDERING RISK

Assessment of risks by Zimbabwe was through the use of the World Bank AML/CFT Risk Assessment Tool. The Tool breaks down risk as made of the three components of Threat, Vulnerability and Consequences. For the purposes of this assessment emphasis was given to the two main components of this formula which are **threat** and **vulnerability**.

- **ML threat - Predicate Offences**

The national money laundering threat for Zimbabwe was assessed to be **medium**, with the main ML major predicate offences generating proceeds being (a) fraud, (b) smuggling, (c) illegal dealing in gold, (d) corruption and (e) tax evasion. The assessed value of threat proceeds for the period under review; (2014-2018) is estimated to be about 4.5 billion dollars in total, giving an annual average of about 900 million dollars per year, down from the 1.8 billion figures for the last NRA. Main factors contributing to the down trend were the improved gold collection strategies (from 6 tons to 24 tons per annum), the improved security arrangements in Chiadzwa diamond area, and more importantly the activities of the Minerals and Border Control Unit. Demand for imports experienced a downward trend from 2014 to 2018, and also improved accounting led to the narrowing of the gap between exports and imports with a total of 1.3 billion USD for the current NRA period, as compared to 2.6 billion USD during the last exercise. The situation has improved also due to increased uses of plastic and mobile money. The country has witnessed an improvement of its technical compliance and effectiveness ratings.

- **ML Threat Sectoral Analysis**

In terms of sectoral threat, the twelve sectors were assessed and, these

were rated as follows; High threat level, (Banking, Real Estate, Motor Vehicle Dealers, Mining Sector and mobile financial service providers. The first three (3) sectors were identified as having a medium level threat, and while the last two (2) were rated as low.

- ML vulnerabilities.**

Zimbabwe's overall money laundering vulnerability was found to be medium, with a score of 0.52 on a scale of 0 to 1. In the same vein, the national combating ability has been assessed to medium with a rating score of 0.49. Overall, sectoral vulnerability has been identified to be medium, with an assessed rating of 0.53. Four sectors were rated as medium high in terms of vulnerability to ML. These are Accountants (0.68), Car Dealers, (0.65) Dealers in Precious Stones (0.61) and Mobile Financial Services Providers (0.60). Five sectors which were rated as medium were; MVTs, Banking, Lawyers, Real Estate and Insurance. The least vulnerable sectors assessed as low were; Securities, Micro Finance Institutions and Casinos.

- Overall ML Risk**

From the heat map shown below the overall ML risk for Zimbabwe is medium.

Threat	High			
	Medium		XXX	
	Low			
		Low	Medium	High
	Vulnerability			

Terrorist Financing (TF) Risk.

- **TF Threat-** Overall, Terrorism and Terrorist Financing threat in Zimbabwe is rated low.
- **TF Vulnerabilities.** - The country is aware and alert to developments and activities happening in the region and globally with regards to TF vulnerabilities. Despite the fact that there are certain sectors identified as risk, none of those identified renders Zimbabwe vulnerable. On the whole, the country is rated low in terms of vulnerability.
- **The overall TF** threat is low for Zimbabwe.

Financial Inclusion Products.

- Twelve (12) financial inclusion products were assessed as part of this exercise to determine the level of risk, with regards to potential abuse through ML activities. The financial inclusion products' overall risk was rated **low**. This was mainly credited to the function of the control measures in place for each of the products assessed.

Specialised and Focused Assessments.

The thematic threat and vulnerability assessments in the main section of this report are those reflected by the World Bank Tool. However, the jurisdiction took the initiative to assess risks of other sections and sectors of concern to the Zimbabwean economy though not directly represented as modules of the standard World bank tool through use of custom and self-developed assessment tools.

These Assessments were for Environmental Crimes which due recognition is given to assistance of the World Bank experts and the Legal Persons and Arrangements and the Non-Profit Organisation Assessments which were used grown templates. To this effect to ensure that the World Bank Tool format was not disrupted these assessments are included as part of the Risk Assessments Report as addendum reports in Chapter 17 and Chapter 18.

In Zimbabwe, private companies pose the greatest vulnerability for ML, and in terms of environmental crimes, the damage caused by mining cause the greatest threat. And those NPOs mostly in the service sector with funds of an opaque origin were rated as the most vulnerable for abuse for TF.

Way forward

Action plans to address identified risk.

A detailed action implementation plan has been drawn for each of the sectors/products assessed, identifying the priority actions, the champions to guide them, as well as the anticipated time frames. It shall be the responsibility of the National Task Force on AML/CFT to ensure implementation and monitoring of the same.

National AML/CFT Strategies.

A high level National AML/CFT Strategic Policy document, (i.e. The Zimbabwe National AML/CFT Strategy 2020-2025) has been drawn from the key deficiencies and action plans identified from the assessment and its resultant DAIPs. This particular document shall be the guiding roadmap for AML/CFT implementation in Zimbabwe for the set period. This document has been produced separately from the NRA yet it is to be broadcast and disseminated wherever possible in conjunction with the NRA.

CHAPTER 1

INTRODUCTION.

COUNTRY DEMOGRAPHY AND STATISTICS

Geography and Social Demographics

Zimbabwe is a landlocked country in Southern Africa, lying wholly within the tropics. It straddles an extensive and high inland plateau that drops northwards to the Zambezi valley where the border with Zambia is, and similarly drops southwards to the Limpopo valley and the border with South Africa. The country has borders with Botswana 813 km, Mozambique 1,231 km, South Africa 225 km, Zambia 797 km and almost meets Namibia at its westernmost point.

Based on the 2017 revision of the World Population Prospects, the population of Zimbabwe was estimated by the United Nations at 16,150,362 in 2016. 99.6% of the population is of African origin. Zimbabwe has 16 official languages with Shona being the most dominant, (about 80%), followed by Ndebele, (about 18%) and the rest about 2%. English is widely used in administration, law and schools. Almost 85 percent of Zimbabweans are Christian. Christianity is often mixed with enduring traditional beliefs. Less than 1% of the population is Muslim, although many Zimbabweans are influenced by Islamic food laws.

Government structure

Zimbabwe is a presidential republic, whereby the President is the head of state and government as provided for in the 2013 Constitution. Executive power is exercised by the government. Legislative power is vested in both the government and parliament.

There are three main branches of government; the executive, the

legislature and the judiciary, with President as the head of the executive branch, the Speaker of Parliament as the head of the legislature and the Chief Justice of the Supreme Court of Zimbabwe the head of the judiciary.

Legal system, judiciary and law enforcement.

The legal system of Zimbabwe is based on Roman Dutch law and the highest court is the Constitutional Court. The Constitutional Court is headed by the Chief Justice. The Constitutional Court has the jurisdiction over alleged violations of fundamental rights guaranteed in the Constitution.

Below the Constitutional Court is the Supreme Court of Zimbabwe. It comprises essentially the same Judges of the Constitutional Court. The major difference is that the Constitutional Court full bench has a sitting of nine Judges whilst the Supreme Court full bench has a sitting of five Judges. The Supreme Court is an Appellate body for the decisions from the Labour Court and the High Court of Zimbabwe.

Below the Supreme Court is the High Court. The High Court consists of general and appellate divisions across Zimbabwe. Below this High Court are regional magistrates who have civil jurisdictions and deal with both civil and criminal cases. Separate African courts before independence had jurisdictions over cases involving traditional law and customary law and in 1981 these courts were integrated into the Zimbabwe national court system.

In the High Court, the head of the courtroom is the judge. The judge is appointed by the President who is recommended of the Judicial Service Commission. The Judicial Service Commission is made up of the following members: The Judge, the Chairman of the Public Service Commission, the Attorney-General, and two or three other members appointed by the President. One of these appointees must be a person who is or has been a Supreme Court or High Court judge. The President of Zimbabwe has the role of appointing the Chairman and Attorney

General as well as the many other roles of the Commission and Court systems.

Economy.

Minerals and agricultural products are the main exports of Zimbabwe. Tourism also plays a key role in the economy. The mining sector remains very lucrative, with some of the world's largest platinum reserves, the Marange diamond fields, whose exploration expanded in 2006, are considered the biggest diamond field in over a century in the world. The ICT sector of Zimbabwe has been growing at a fast pace.

Zimbabwe maintained positive economic growth throughout the 1980s (5% GDP growth per year) and 1990s (4.3% GDP growth per year). The economy declined from 2000: 5% decline in 2000, 8% in 2001, 12% in 2002 and 18% in 2003. From 1999-2009, Zimbabwe saw the lowest ever economic growth with an annual GDP decrease of 6.1%.

Inflation rose from an annual rate of 32% in 1998, to an official estimated high of 11,200,000% in August 2008 according to the country's Central Statistical Office. Zimbabwe introduced a multi-currency system in 2009 in which nine currencies became legal tender in place of the Zimbabwean Dollar (ZWD) which had collapsed. The Botswana Pula, the South African Rand (ZAR) and the United States of America Dollar (USD) were widely used. The USD was the settlement currency for international transactions and central securities depository systems. In February 2019, The Central Bank introduced a new local currency, the RTGS Dollar in a move to address some of the Zimbabwean economic and financial challenges. It became the legal tender for local transactions, a move that ended the multi-currency regime.

Current AML/CFT framework.

Zimbabwe previously underwent an ESAAMLG Mutual Evaluation in 2007, conducted according to the 2004 FATF Methodology. Zimbabwe's 2007 MER concluded that the country was compliant (C)

with 3 of the 40 Recommendations; Largely Compliant with 4; Partially Compliant with 32; and Non-Compliant with 10. Zimbabwe was rated Compliant or Largely Compliant with 2 (formerly R.5 and R.10) of the 16 Core Recommendations. Zimbabwe entered into the follow-up process in August 2010 and exited the process in March 2015 with outstanding deficiencies on R.35 (now R.36) and SR.III (now R.6). The reason for Zimbabwe exiting the follow-up process was due to the country undergoing an assessment under the 2013 Methodology in July 2015.

Since the last Mutual Evaluation in 2007, Zimbabwe underwent a comprehensive review of its AML/CFT regime. This exercise led to a number of new laws and amendments to the existing legislations to strengthen the regime. Before this process, the primary legislations underpinning the AML/CFT regime were; Criminal Law (Codification and Reform) Act, 2006, Serious Offences Act, 2001 and the Bank Use Promotion and Suppression of Money Laundering Act, 2002. In 2013, Zimbabwe passed the Money Laundering and Proceeds of Crime Act (MLPC Act) which is a composite legislation criminalizing money laundering (ML) and terrorist financing (TF). The Act also provides for provisional and confiscation measures, preventative measures and supervision responsibilities, and sanctions for failure to comply with obligations and commission of ML and TF offences.

The country conducted its first ML/TF National Risk Assessment in 2015. The report assessed ML risk as high and TF as low. The main predicate offences giving rise to ML were tax evasion, smuggling, dealing in precious stones, and metals as well externalization of foreign currency.

The country underwent the 2nd Mutual Evaluation Exercise/ Assessments under the FATF 4th procedures and the findings of the assessment was that Zimbabwe was compliant and largely compliant with 20 of the TC Ratings and were found to be low on nine of the immediate outcomes and two as moderate. Since then the country has embarked on capacity building for all its aspects of the national AML/CFT framework.

METHODOLOGY AND PROCESS

The World Bank Tool

The FATF recommends that jurisdictions identify, assess, and understand the ML and TF risks specific to them and take action and apply resources to mitigate such risks. In conducting this assessment, the country made use of the World Bank National Risk Assessment Tool.

The World Bank Tool enables jurisdictions to identify the main drivers of ML/TF risks through a methodological process based on the understanding of the causal relations among risk factors and variables relating to the regulatory, institutional, and economic environment. In essence, the ML/TF risk of a jurisdiction comprises “threats” and “vulnerabilities”. Threats refer to the scale and characteristics (or patterns) of the generation, inflows, and outflows of the proceeds of crime or funds linked with terrorism. For ML, this points to an assessment of the internal and external threats, including the predicate offences that generate crime proceeds, the total size of the crime proceeds, the sectors in which proceeds are invested and laundered, and other relevant factors. Thus, TF threats point to the direction of TF funds, and the sources and channels used. Vulnerabilities refer to weaknesses or gaps in a jurisdiction’s defenses against ML/TF, measured with respect to relevant “input variables” at the territory-wide or sectoral level.

The ML risk of a jurisdiction is the combination of threats and vulnerabilities at the territory level, which is a function of threats and vulnerabilities of individual sectors, as well as the jurisdiction’s AML controls, which determine the jurisdiction’s ability to combat ML activities. The TF risk of a jurisdiction is an outcome of TF threats and vulnerabilities. Ratings (low, medium-low, medium, medium-high and high) are assigned to ML/TF threats and vulnerabilities, based on available qualitative and quantitative information, to generate results that can be represented graphically on a risk-level heat map. Figure 2.1 is a graphical overview of the World Bank Tool and Figure 2.2 shows the risk-level heat map.

In this particular exercise, the World Bank role was limited to the deployment of the excel template, provision of technical assistance and guidance in the effective use of the excel template. Data was collected and populated into the template. Findings, interpretations, and judgments of the exercise was solely the work of the Working Groups and do not reflect the views of the World Bank.

Organisation and Participants.

The National Risk Assessment was conducted under the auspices of a sub-committee of the National Task Force on AML/CFT of Zimbabwe, which was termed the National Risk Assessment Coordination Committee (NRACC). The Ministry of Finance and the FIU co-chaired the Committee with the FIU staff seconded as Secretariat. The NRACC had secondments from the private sector to assist it in this rationale exercise.

Having received its mandate from a resolution of the NTF on AML/CFT the NRACC was responsible for coordinating the gathering and analyzing of data and coming up with the risk assessment results. The assessment involved over one hundred and fifty participants, representing seventy-three institutions from the public and private sectors, a representation that indicated a high level of participation and commitment from the relevant stakeholders.

The full list of participants included the following Ministries and Quasi-Governmental Organizations;

- Ministry of Finance and Economic Development,
- Ministry of Justice, Legal and Parliamentary Affairs,
- Ministry of Mines and Mining Development,
- Ministry of Home Affairs,
- The Attorney General Division,
- Zimbabwe Republic Police,

- Border Control and Minerals Unit,
- CID Fraud Squad,
- National Security Service,
- Zimbabwe Revenue Authority,
- National Prosecuting Authority,
- Department of Immigration,
- Zimbabwe Anti-Corruption Commission,
- Reserve Bank's Exchange Control Division,
- Reserve Bank's National Payments Division,
- Reserve Bank's Bank Supervision and Licensing Division,
- Securities and Exchange Commission,
- Insurance and Pensions Commission, and
- Law Society of Zimbabwe.

The process also involved private sector participants, civic organizations and consumer watchdogs who included Banking Institutions, Non-Bank Financial Institutions, Securities Firms, the Zimbabwe Stock Exchange, and the Consumer Council of Zimbabwe.

Primary data was obtained mainly through a focus group with participants of the various thematic modules. All conclusions were made through consensus. This focus group had representatives from all relevant sub-sectors for the particular module, which made the conclusions reached very reliable. Additionally, questionnaires were also circulated to immediate stakeholders. The data provided by each of the institutions was collated to come up with conclusions about each variable/product/service/subsector that was being analyzed.

In addition to the data obtained from primary sources, the risk assessment through the sectoral approach incorporated vital information from secondary sources that are as listed below:

- Quarterly returns submitted to the relevant Supervisory

Authorities

- Historical statistics provided by market players
- Zimbabwe National Statics Agency reports
- AML/CFT legislation
- Zimbabwe Mutual Evaluation Report (2016)
- Zimbabwe's 1st National Risk Assessment Report (2015)
- NRAs for other countries from those within the region and also those from other FSRBs.
- Sectoral Risk Assessment Reports.
- Supervisor Inspection Reports.

Roadmap and Process.

The NRA exercise has been conducted in structured phases and was conducted over a period of ten months from January 2019 to September 2019.

Phase One: Preparations and Planning.

The initial phase consisted of preparations and planning on how to conduct the NRA process. As per the first NRA, this stage included constituting the National Risk Assessment Coordinating Committee, designation of the Financial Intelligence Unit as the Lead Agency and Secretariat, identification and engagement of relevant stakeholders, choice of NRA Tool to use in the process (World Bank Tool), appointment and training of NRA Team Leaders, and the convening of an initial All Stakeholders' Workshop to explain the NRA process. The workshop was held on 06 February 2019 at Cresta Hotel signaling the official launch of the second NRA process.

Phase Two: Data collection and Analysis.

This was the data gathering stage and the exercise involved gathering data to assess the national ML/TF threats and ML vulnerability. The mechanism and methodology for collecting and analyzing data was

through nine thematic committees constituted as sub-committees of the NRACC. The thematic committees mirrored the structure of the NRA Tool which is structured into nine modules. Each module focused on a specific thematic area of the NRA and each the respective team then came up with a report covering its area. The different thematic groups employed different approaches in collecting data which ranged from use of questionnaires, desk reviews, and meetings of experts as well the collation of data from various databases.

Phase Three: Compilation and consolidation of sectoral reports

This involved consolidation of the reports of the various working groups into the national report. The NRA Coordinating Committee focused on the process of coordination and consistency review.

Phase Four. Publication and dissemination.

This phase consists of sharing the report with key stakeholders. This phase involves a discussion and review of the report and coming up with a draft detailed action plan to address the deficiencies identified by the report.

Limitations and Challenges encountered during the assessment.

In the process of conducting risk assessment for the insurance industry, the thematic committees faced challenges. These included;

- late responses to requests for information and time constraints due to other work-related commitments on the part of coordinators and participants, leading to time constraints on collecting and analysing data,
- Limitations of data, or restrictions to access to data, of which at times were as a result of ICT system challenges which also slowed the data gathering process,
- Failure to turn up by other identified stakeholders to scheduled meetings, or the unavailability of key persons

from other invited organisations,

- lack of interest by some sectors to provide the required information timely,
- Limited disclosure on the activities of registered accounting and auditing firms, thereby making it difficult to obtain complete and accurate data, Some of the information was deemed to be sensitive business and personal information by the interviewees,
- Challenges in categorization/classification of customers/ products/sectors onto their relevant analysis categories, and
- Some of the targeted population did not complete the questionnaire as they were sceptical of the whole exercise.

The extent of challenge that each of these variables would impact, differed from module to module. And in no cases did all the variables present themselves to a single particular module. The encountered challenges were however, substantially overcome and did not affect the quality of the ultimate risk assessment.

Report layout.

The report does not follow World Bank tool in the strictest sense. It is laid out to discuss overall ML/TF Risk and cascades to the discussions of the different sectors and relative themes.

Updating the assessment.

In line with international best practice, this NRA, all things being equal, shall be reviewed within a period of not more than five years from the official completion date on which it was compiled. The previous NRA report was launched in 2014, and hence the next one to be undertaken and completed before the end of 2019.

Developments within the economic environment may trigger an earlier review of this assessment. These disruptions may include but not limited to domestic legislative changes, major reviews to the FATF standards, as well as new and developing AML/CFT trends of which the Authorities deem significant to warrant a review of the national risk.

However, stakeholders are directed to continually review their operating environment and make the relevant adjustments to their sectoral and thematic risks. These reviews should, as a custom be conducted at least annually, whilst this NRA is still valid.

Furthermore, during the validity period of the Assessment, the Authorities may issue guidelines, updates and other relevant material to stakeholders to ensure that they remain current in their approach to understanding and mitigating risk.

CHAPTER 2

THREAT ASSESSMENT

KEY FINDINGS- THREAT ANALYSIS.

The national money laundering threat for Zimbabwe is rated **MEDIUM LOW** (ML) whereby, the domestic money laundering threat is Medium (M), and threat from abroad is Low (L). Money laundering from both domestic and abroad is rated Medium low while threat with unidentified origin is Low (L). The five major predicate offences generating proceeds accounting for both the domestic and foreign ML threat are (a) fraud, (b) smuggling, (c) illegal dealing in gold, (d) corruption and (e) tax evasion.

BACKGROUND TO ML THREAT ANALYSIS.

The assessment of the prevalent predicate offences in Zimbabwe was carried out covering the period 1st January 2014 to 31st December 2018. Statistics were collected from the various LEAs and a remarkable improvement in the submission of statistics was noted, when compared to the previous 2015 National Risk Assessment Process. This is attributable to improved record keeping and awareness by the LEAs as well as the awareness and outreach efforts by the National Task Force bearing fruit.

Predicate offences threat analysis.

Fourteen (14) out of the twenty-one (21) predicate offences to ML as per the FATF list were identified in Zimbabwe. However, it was also observed that of these fourteen predicate offences, the majority generated insignificant proceeds of crime, mainly for hand to mouth purposes, thus, resulting in very low money laundering opportunities. Consequently, only five predicate offences out of the fourteen (14) may be classified as generating proceeds with a magnitude, suitable for consideration for ML Assessment. These five offences are (a) fraud, (b)

smuggling, (c) illegal dealings in gold, (d) corruption and (e) tax evasion.

Analysis of the crime statistics at a national scale.

Zimbabwe began recording statistics on ML from the time of the promulgation of the Money Laundering and Proceeds of Crime Act in June 2013. Though the numbers of ML cases are still low there has been a significant increase over the years, more so, since the recent establishment of the Asset Forfeiture Unit within the CID. There has been good progress on investigating ML cases and the pressing of ML charges in the period under review.

The actual total value of all proceeds attributed to predicate offences according to crime statistics from LEAs in the country for the **period 2014 to 2018 is USD 1,574,688,472.00**. Of the fourteen (14) predicate offences that were analyzed, a total of 520,767 cases were reported and investigated. 223,316 arrests were made representing 43% of the reported cases. 186,552 cases were sent for prosecution and 101,802 convictions were secured thus 55% of cases prosecuted. Seizures with a value of \$18,870,312.00 were obtained and confiscations valued at \$8,906,736.00 were undertaken. This translates to 47% of the total value involved.

The crime statistics figures that were obtained from the LEAs may be estimated to be a third of the total value being laundered in Zimbabwe. A further assessment taking into account of the following; (a) possible unreported cases, (b) intelligence information and (c) literature from open sources, estimates can be made for five predicate offences as identified in the paragraph above. Illegal dealing in gold is estimated to generate proceeds amounting to \$860 million, smuggling is estimated to generate proceeds amounting to \$800 million, corruption cases are estimated to have a proceeds figure of about \$700 million, tax related crimes are estimated to have proceeds of about \$500 million, precious stones at \$400 million, whilst Money Laundering offences as a standalone offence are estimated at \$200 million.

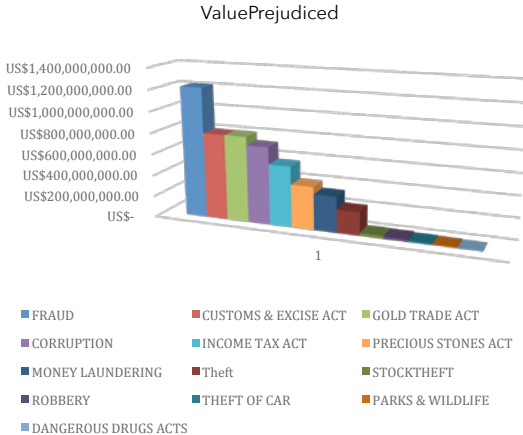
The total figure of proceeds being generated by all the predicate offences in addition to the top five discussed above was, therefore, estimated to be **\$4, 7 billion for the period 2014 to 2018**. The figure translates to about \$0, 9 billion per year on average. Given that Zimbabwe's GDP is about \$25 billion (at 2019 figures); this represents about 3.6% of Zimbabwe's GDP.

Table 2. 1 Predicate offences with high proceeds of crime.

NO	PREDICATE OFFENCE	VALUE LOST TO THE NEAREST MILLION including estimates	REASON FOR ESTIMATION
1	Illegal dealing in gold	\$867 million	<p>Due to high unemployment levels in the country for the period under review, a significant number of people mostly youths have resorted to "informal" gold mining (mostly commonly referred to as artisanal mining), as a form of livelihood.</p> <p>Other criminal elements have used the window of artisanal mining as a foray into the gold sector. Further, not all artisanal miners are of high integrity; given a choice or lapse in the system these easily dispose their workings to foreign illegal buyers.</p> <p>In response to these threats, the Law Enforcement Authorities have installed security mechanisms for all elution plants and mills to monitor the production, elution and smelting of the gold. This measure is meant to mitigate against and to a large extent has been successful to stem potential leakages.</p> <p>However, given the size in terms of numbers and geographical spread of artisanal mining operations, the possibility of calculated and deliberate efforts to evade controls are possibly taking place, nevertheless losses from these schemes can be estimated not to exceed 500 million USD dollars.</p>

2	Smuggling	\$801 million	<p>Zimbabwe has a long and almost continuous stretch of a porous border, running from Mozambique in the East, South Africa in the South and Botswana in the South West and Zambia.</p> <p>A range of goods depending on origin and transit find their way illegally into the country from clothing, electrical goods, mobile phones and high value items such as computer parts and cars. Violation of the same Act also involves goods (such as raw tobacco or manufactured cigarettes) also being illegally exported from the country. Other factors pushing up the estimate for smuggling are the informal sector which is difficult to regulate, monitor and the unavailability of basic goods from underperforming economic sectors.</p> <p>Given the thin resources for operations of LEAs some of this illegal import and export is not detected. However, the possibility of connivance activity between smugglers and officials at borders cannot be ruled out. With poor remuneration of LEAs chances of corruption are also high where smugglers may collude with them.</p>
3	Corruption	\$724 million	<p>The country witnessed a high number of corruption cases being discussed in both the public and social media. However, it is the view of the assessment that the public figures are part of the total figure. This is so because in corruption cases it always takes two to engage in an act of corruption, and given that both parties are liable to prosecution, it takes bravery for someone to report corruption in this regard it is highly possible that the majority of corruption cases that actually occur never see the light of day. The estimate is therefore guided by the high number of Criminal Abuse of Office where the monetary value is discussed and disclosed with inferences extended into the undisclosed figures and cases. The figure is an estimate given that it is highly probable that a lot of money is being lost in corruption.</p>

4	Fraud	\$601 million	The majority of Fraud cases are reported and the values are known by the victims.
5	Illegal dealing in precious Stones	\$400 million	<p>The figure represents activities of isolated funds of not only diamonds but various types of precious stones whose occurrence is dotted all across the country. Given that such finds are normally on unpegged and unregistered claims chances that these are not channeled into the official channel is high. The figure may appear high at first but this may not refer to the intensity of the activity as opposed to the estimated final value associated with precious stones.</p> <p>The Chiadzwa Diamond mining fields having been combed off by security agencies resulted in the reduction of illegal precious dealings. Moreover, there are no significant current mining activities being done in the area. Alluvial diamond seems to be scarce now hence a notable reduction of illegal precious stones dealings.</p>
6	Money Laundering	\$233 million	The figure actually laundered seems to be low because of the hand to mouth scenario in the economic environment. Proceeds generated from single criminal acts are low and are often for consumption with little investment, or layering and integration.
7	Tax Evasion	\$500 million	Zimbabwe has an informal market of over 60% and the majority is not paying tax. A number of registered companies have been arraigned before the courts for tax evasion. Businesses are externalizing their profits, hence depriving this country of the due tax.

Table 2.2 Proceeds generated from predicate offences in Zimbabwe.

ANALYSIS OF ZIMBABWE'S MAJOR PREDICATE OFFENCES

An analysis of Zimbabwe's major predicate offences is presented below.

(a) **Fraud**

According to Section 136 of the Criminal Law (Codification and Reform) Act [Chapter 9:23] Fraud is committed by any person who makes a misrepresentation (a) Intending to deceive another person or realizing that there is a real risk or possibility of deceiving another person; and (b) intending to cause another person to act upon the misrepresentation to his or her prejudice, or realizing that there is a real risk or possibility that another person may act upon the misrepresentation to his or her prejudice; shall be guilty of fraud if the misrepresentation causes actual prejudice to another person or is potentially prejudicial to another person.

Table 2. 3 Fraud statistics.

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
TOTAL	2014	10,070	4,900	4,870	1,100	177,259,238.00	5,342,246.00	800,000.00	200,000.00
	2015	11,200	5,400	5,350	1,530	464,715,815.00	154,885.00	3,000.00	1,000.00
	2016	10,360	5,130	5,020	1,860	170,299,938.00	8,084,511.00	21,000.00	10,000.00
	2017	4,800	3,900	2,600	2,100	124,674,200.00	80,400,600.00	-	-
	2018	11,740	7,150	6,720	3,310	283,194,237.00	21,517,476.00	-	-
		48,170	26,480	19,745	9,900	1,220,143,428.00	115,499,718.00	824,000.00	211,000.00

The total number of cases received during the period under review was 48,170 giving a yearly average of 9,634. Of these cases 26,480 people were arrested, which translates to a rate of 55%. Of the total arrests 19,745 people were prosecuted translating to a figure of 93%. A total of 9,900 cases resulted in convictions, and thus a conviction rate of 40.3%. Total value of proceeds that could have been generated from these offences is US\$1,220,143,428.00 and US\$115, 499,781.00 was recovered which translates to a percentage of 9%. Of the recovered amount US\$824,000.00 was seized and this translates to 0.7%. The state managed to confiscate US\$211,000.00 which was 26% of the seized amount.

Trends/Sectors involved/ML rating

The common trends noted for the period under review are that fraudsters target financial institutions, wholesale and retail businesses, mining, farmers, home seekers, insurance companies and ordinary citizens. These have not yet changed from the trends noted in the previous NRA report.

One such example is with regard to fake procurement supplies. The victim is then led to complete the transaction by transferring money to a foreign supplier. In most cases, fake goods would be supplied but at the time of delivery, the local buyer would vanish, leaving the victim stuck with fake goods which would be of no value.

Card cloning and sale of non-available stands in the real estate business is also trending. Criminals also hack emails and divert payment details whilst some use fake RTGS.

The most affected sectors are Real Estate sector, Wholesale & Retail, Mining and Agriculture as well as private individuals. The proceeds from fraud are being laundered into the informal sector e.g. Mbare Magaba wares market where it was observed that some of the criminals have established businesses in the informal sector, including transport operators.

Fraud has a transnational character as reported on some transactions which are done locally and paid using offshore accounts. Criminals promise to make off shore payments for goods and victims deposit equivalent funds locally, only to realize later, that their off-shore accounts were not settled. **The ML threat of Fraud is rated medium.**

(b) Corruption/bribery

It is defined in Sections 170,171,173 and 174 respectively under the Criminal Codification Act. (Chapter 9:23). Under current Zimbabwean legislation there is no offence specifically named corruption. Rather there are acts constituting a corrupt conduct. A corrupt act or conduct is an unlawful and intentional offering to or agreeing with a person to give any consideration in return for action or inaction by him. It also involves the process of unlawfully and intentionally agreeing to accept a consideration in return for action or inaction by him. Both the person taking the bribe and the one offering are criminally liable.

In Zimbabwe corruption conduct or act include;

- i. Corruptly using a false document,
- ii. Concealing a personal interest in a transaction from his principal,
- iii. Criminal abuse of office as a public officer, and Bribery.

The Zimbabwe Anti-Corruption Commission and the Police are mandated to investigate all corruption cases and present the matter before the courts. No confiscations were recorded during the period under review.

Table 2. 4 Corruption/Bribery statistics.

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
CORRUPTION	2014	330	240	333	69	1,200,750.00	500	-	-
	2015	270	270	240	40	900,650.00	450	-	-
	2016	265	340	317	39	1,300,600.00	600	-	-
	2017	434	301	295	63	19,254,700.00	300	-	-
	2018	280	309	297	70	1,500,400.00	150	-	-
	TOTAL	1579	1560	1482	281	24,157,100.00	2,000.00	0	0

The above statistics are consolidated from of the different corruption practices. Total numbers of cases received during the period under review were 1,579 with a yearly average of 316 cases. From the reported cases 1,560 people were arrested, which translated to a rate of 99.1%. Of the arrests, 1,482 people were prosecuted and this translates to a rate of 95%. A total of 281 cases were successfully convicted and this translates to a rate of 19%. Total value of the offences was US\$24,157,100.00.

Trends observed are that, both people who hold positions of authority in the public and private sectors are perpetrators of the offence. Corrupt acts have been evident in tenders, through splitting tenders or showing favoritism in awarding tenders, allocation of business land, construction of wetlands and employment scams and concealing of transactions from principals. During the period under review it was observed that there was an increasing number of PEPs brought before the courts with high values involved.

With regards to bribery, the figures were generally noted to be relatively small values with low potential of ML. Only a few public cases, which are a small percentage of the reported statistics, warrant an extension to ML. The statistics relating to individuals, on the reported cases, indicate small figures. With regards to this predicate offence, it has been noted that possibly only a very few cases have been reported due to the fact that both beneficiaries in a corrupt act are liable to prosecution; hence they are reluctant to report each other.

Notably, Zimbabwe is ranked high on corruption on the Transparency International Corruption index. Though this conclusion was reached after their surveys, statistics on the ground both on reported and whistle blower cases do not corroborate such a high level of corruption in the country.

Corruption has a transnational character. In some cases, it was found that the proceeds of corruption were being consumed in neighboring countries and stashed into offshore accounts. The overall figure

estimated for corruption points to a high threat of ML in Zimbabwe, despite the seemingly low number of prosecutions and convictions.

(c) **Extortion**

It is defined as “taking from another some advantage by intentionally and unlawfully subjecting him to pressure which induces him to submit to the taking”.

Table 2.5 Extortion statistics.

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
EXTORTION TOTAL	2014	850	460	440	120	1,200.00	-	-	-
	2015	920	490	480	190	980.00	-	-	-
	2016	950	530	520	120	1,576.00	-	-	-
	2017	230	150	150	20	521.00	-	-	-
	2018	740	420	400	110	1,322.00	-	-	-
		3,690	2,050	1,990	560	5,599.00	0	0	0

The total number of cases reported during the period under review was 3,690 giving a calculated yearly average of 738. Of the cases reported

2,050 people were arrested which translated to an arrest rate of 56.8%. Of the total number of people arrested, 1,990 people were prosecuted and the prosecution rate was 95.2%. A total of 560 cases resulted in convictions and this was a conviction rate of 27.5%. Total value of the offences was US\$5,599.00.

Trends/Sectors involved/ML rating

With regards to extortion, it was noted that in most of the cases the perpetrators impersonate state security agents mainly the Police, state security, Zimbabwe Anti-Corruption Commission or the military personnel. The criminals would have got inside information on their victim's activities, such as unpaid taxes, cases under investigation or in court or any other incriminating evidence which is then used to induce or extort the victim. Some even use compromising pictures involving infidelity issues. In the private sector the offence normally involves, blackmail between debtors and creditors, business partners.

The extorted proceeds generated per case, are estimated to be anything up to a few hundred thousand dollars. Some cases of extortion go unreported.

Few incidents of laundering are expected since proceeds from extortion are often small and usually hand to mouth. There is no evidence of any cross-border related issues on extortion. **The ML risk was rated low**

(d) Theft

In Zimbabwe, according to the Codification Act, theft is legally defined as "the unlawful taking or appropriation with intent to steal property capable of being stolen that is, either knowing that another person is entitled to own, possess or control the property or realizing that there is a real risk or possibility that another person may be so entitled; and intending to deprive the other person permanently of his or her ownership, possession or control".

The prevalent forms of theft in Zimbabwe are plain theft, theft of motor

vehicle, theft from motor vehicle, theft of copper cables and stock theft.

(d) (i) Plain Theft

Trends/Sectors involved/ML rating

Theft under this category takes the following forms: theft of household electric gadgets, cell phones, cash, and many other small items. Offences are committed either through shoplifting (theft from shops), theft from employer, house break-ins, pick pocketing, and theft of trust property by business associates etc. The offenders include street kids, vagrants, employees or anyone who sees an opportunity in his/her surroundings. There are no statistics of plain theft cases with cross border implications.

(d) (ii) Theft from motor vehicles

Trends/Sectors involved/ML rating

On theft from car cases, the common trends are that criminals target unsecured baggage left in the car whether at home or in parking lots around the city. The criminals smash quarter glasses/ windows on the victims' vehicles and fish or pick out items to steal. Stolen items include car accessories, car radios, spare wheels and any other unsecured baggage left in the car. The trends in these cases have remained the same as of the previous NRA report.

Table 2. 6 Theft from motor vehicle statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
THEFT	2014	63,770	25040	25360	9870	42,286,976.00	878,160.00	800,000.00	660,000.00
	2015	67,310	28440	2580	11350	41,061,844.00	1,094,110.00	1,000,000.00	321,000.00
	2016	70,900	26590	25970	12040	37,704,907.00	1,433,300.00	900,000.00	234,121.00
	2017	66,860	27550	25210	11510	42,596,096.00	2,999,680.00	1,500,000.00	900,764.00
	2018	82,470	34040	29910	17600	54,242,699.00	9,670,030.00	8,000,000.00	3,287,654.00
TOTAL		351,310	141660	109030	62370	217,892,522.00	16,075,280.00	12,200,000.00	5,403,539.00

The statistics provided for theft by LEAs include a combination of the above forms of theft. Total number of cases received during the period under review was 351,310 with a yearly average of 70,262. Of the cases reported 141,660 people were arrested which translated to a rate of 40.3%, and about 109 030 people were prosecuted representing a figure of 76.9%. A total of 62,370 cases resulted were successful convictions, translating to a rate of 57.2%. Total value of the offences was US\$217,892,522.00 and US\$16,075,280.00 was from recovered profits which translate to a recovery rate of 7.3%. Of the recovered amount, a total US\$12,200,000.00 was seized. The seized amount as a percentage of the recovered amount was 75.89. The state managed to confiscate US\$5,403,539.00 which was 44.29% of the seized amount.

Theft from MVs has no transnational significance. All the cases that were received originated from Zimbabwe and the cases under this category were committed locally and by locals. **The ML threat is Low.**

Table 2. 7 Theft of motor vehicle statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
THEFT OF CAR	2014	420	160	160	34	4,213,205.00	305,230.00	300,000.00	167,000.00
	2015	360	110	120	23	2,500,066.00	133,700.00	100,000.00	86,000.00
	2016	390	140	135	22	2,637,374.00	23,670.00	175,000.00	162,000.00
	2017	207	101	89	60	875,475.00	388,561.00	134,601.00	250,000.00
	2018	610	140	136	33	3,835,829.00	1,720,300.00	531,000.00	200,000.00
TOTAL		1987	655	644	172	14,061,949.00	2,571,461.00	1,240,601.00	865,000.00

Total number of cases received during the period under review was 1987 with a yearly average of 397. Of the cases reported 655 people were arrested which translated to an arrest rate of 33.1%. Of the number arrested, about 644 people were prosecuted, representing a prosecution rate of 97.4%. A total of 172 cases resulted in convictions, thus a conviction rate of 26.9%. Total value of the offences was US\$14,061,949.00 of which US\$2,571,461.00 was recovered. This translates to a figure of ~~18.29%~~. Of the recovered amount US\$1,240,601.00 was seized. The seized amount as a percentage of the recovered amount was 48.24. The state managed to confiscate US\$865,000.00 which was 69.72% of the seized amount.

Trends noted are that, most of the stolen vehicles are small ones that save fuel. They are stolen to go and commit other crimes like robbery or may be used for pirating purposes and there after dumped. Trends under this offence indicate that the small vehicles constitute about 70% of the vehicles that were reported stolen and were later recovered.

The carjackers are usually locals working in cahoots with foreigners, who then smuggle the vehicles out of the country. During the period under review it was observed that Zimbabwe had received stolen cars from neighboring jurisdictions. Most of the vehicles were stolen outside Zimbabwe for insurance fraud; some were stolen from foreign car assembly plants with duplicated chassis, engine and registration book.

Proceeds generated from cases of theft of cars have been used to buy clean vehicles from within and outside Zimbabwe. Some have been used to purchase residential stands. Part of the refunds was spent off invisible goods including leisure.

The crime of theft of motor vehicle has a transnational character. Some 4x4 vehicles stolen from Zimbabwe are smuggled out of the country into neighboring states, where there is a lucrative market for such markets. On average 10% of the cases could account for vehicles smuggled from Zimbabwe. **The ML threat from the predicate offense of Theft of Motor Vehicles is low.**

(d) (iii) Stock theft

Stock theft is defined as the theft of livestock, such as cattle, goats, sheep, donkeys, bovines and other domesticated animals.

Table 2. 8 Stock theft statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
STOCK THEFT	2014	9580	2030	2260	690	6,494,230.00	1,513,654.00	43,829.00	6,314.00
	2015	9960	2290	2530	780	5,943,438.00	1,414,165.00	52,714.00	7,500.00
	2016	10495	2470	2560	770	5,950,950.00	2,398,500.00	53,589.00	7,143.00
	2017	8675	1994	2134	640	4,230,876.00	1,043,562.00	61,430.00	8,440.00
	2018	12780	2810	2680	990	4,075,943.00	1,601,459.00	81,949.00	7,523.00
TOTAL		51490	11594	12164	3870	26,695,437.00	7,971,340.00	293,511.00	36,920.00

Total number of cases received during the period under review was 51,490 with a yearly average of 10,298. Of the cases reported, about 11,594 people were arrested which translated to a rate of 22.5%. Of the total arrested 12,164 people were prosecuted and this translated to 104.9%. A total of 3870 cases resulted in convictions and this was a conviction rate of 31.8%. Total value of the offences was US\$26,695,437.00 and US\$7,971,340.00 was recovered which translates to 29.86%. Of the recovered amount US\$293,511.00 was seized (3.86%). The state managed to confiscate US\$36,920.00 which was 12.58% of the seized amount.

Trends/Sectors involved/ML rating

The trends observed are that criminals drive stolen cattle from one area mainly in the rural areas, to the urban areas, where they are sold to butcheries. In some cases, the criminals slaughter stolen cattle and carry away the meat for resale leaving behind the hide, head and hooves to avoid detection.

There is no specific sector where the proceeds are being laundered. The crime of stock theft has cross border implications. Cases of Cross border criminals have been reported in Chikombedzi near the border with Mozambique, Gwanda border with Botswana and in Binga near Zambia. **The ML threat is Low**

(e) Robbery

Robbery is defined as "Theft of property by intentionally and unlawfully using violence or threats of violence to induce submission to the taking of it from the person of another". We have two types of robbery, where it can either be plain robbery or armed robbery and they are both classified as violent crimes.

Table 2. 9 Robbery statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
ROBBERY	2014	7700	1550	1520	490	4,767,628.00	78,660.00	11,400.00	-
	2015	6360	1530	1460	480	3,711,433.00	55,840.00	53,000.00	-
	2016	5260	1370	1340	440	3,882,865.00	51,290.00	46,000.00	-
	2017	5124	1234	1194	397	2,976,435.00	31,564.00	41,300.00	-
	2018	8380	1980	1880	700	8,524,498.00	780,400.00	214,000.00	-
TOTAL		32824	7664	7394	2507	23,862,859.00	997,754.00	365,700.00	-

Total number of cases received during the period under review was 32,824 with a yearly average of 6,564. Of the cases reported, about 7,664 people were arrested which translated to a figure of 23.3%. Of the total arrested, 7,394 people were prosecuted and this was a prosecution rate of 96.5%. A total of 2,507 cases resulted in convictions and this was a conviction rate of 33.9%. Total value of the offences was US\$23,862,859.00 and US\$997,754.00 was recovered (4.18%). Of the recovered amount US\$365,700.00 was seized (36.65%).

Trends/Sectors involved/ML rating.

Trends in robbery are that, in armed robbery there is use of force and a weapon. In plain robbery there is no use of weapon but they use physical force or no force is used, usually criminal's way lay unsuspecting pedestrians in dark areas while armed robbers target service stations after hours, supermarkets and a few cases have been targeted on banks and private residences, car jacking's, home invasions, opportunistic or safe blasting after overpowering the security.

Depending on the size of the loot, criminals spend the proceeds across all sectors and even neighboring countries while running away from local LEAs. In the GMB case of \$1, 8 million cash robbery, criminals bought properties in South Africa. **The ML risk in the country was rated low.**

(f) Smuggling.

According to the Customs and Excise Act, Smuggling is defined as "any importation, introduction or exportation or attempted importation, introduction or exportation of goods with intent to defraud the State or to evade any prohibition of, restriction on or regulation as to, the importation, introduction or exportation of any goods required to be accounted for under this Act". In short it is the unlawful act of evasion of declaring imports or exports to revenue authorities.

The Customs and Excise Act is administered by ZIMRA, a government department which is tasked with collecting tax revenue for the country.

Table 2. 10 Smuggling statistics.

	OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED		
TOTAL	SMUGGLING	2014	1010	1180	1010	800	175,000.00	175,000.00	175,000.00	175,000.00		
		2015	1060	890	1060	850	200,000.00	200,000.00	200,000.00	200,000.00		
		2016	1130	1310	1130	870	45,000.00	45,000.00	45,000.00	45,000.00		
		2017	590	690	590	520	231,557.00	231,560.00	232,000.00	232,000.00		
		2018	265	380	265	190	997,204.00	918,020.00	918,000.00	918,000.00		
			4055	4450	4055	3230	1,648,761.00	1,569,580.00	1,570,000.00	1,570,000.00		

Total number of cases received during the period under review was 4,055 with a yearly average of 811. Of the cases reported 4,450 people were arrested (109.7%). Of the total arrested, 4,055 people were prosecuted (91.1%). A total of 3,230 cases resulted in convictions (79.7%). Total value of the offences was US\$1,648,761.00 and US\$1,569,580.00 was recovered which translates to a percentage of 95.2. Of the recovered amount, US\$1,570,000.00 was seized (100.3%). The state managed to confiscate US\$1,570,000.00 which was 100% of the seized amount.

Trends/Sectors involved/ML rating

This crime is being committed at the country's borders and illegal crossing points which are supervised by customs and the ZRP. Evidence is abounding of gold, cigarettes amongst other items, being smuggled out of Zimbabwe while goods such as electrical gadgets, fuel, households' items, drugs, medicinal drugs, building material and second hand clothes are being smuggled into Zimbabwe. Smuggling is also perpetuated by local retailers, who under-declare the values of their imports so as to pay minimal customs duties. With a huge stretch of our borders being porous, it is highly probable that many other smuggling acts are going unnoticed. Most of the goods are being smuggled to and from China, South Africa and Dubai.

The smuggled goods find their ways into the illegal markets and formal markets where there is a ready market. **The ML Threat is rated as Medium.**

(g) Illegal dealing in gold

Dealing or possession of gold without a permit or license is covered in Section 3(1) of the Gold Trade Act, Chapter 21:03

Table 2. 11 Illegal dealing in gold statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
ILLEGAL DEALING IN GOLD	2014	430	480	430	120	50,000.00	50,000.00	20,000.00	20,000.00
	2015	540	580	530	150	144,000.00	144,000.00	130,000.00	100,000.00
	2016	460	460	430	80	205,000.00	205,000.00	200,000.00	150,000.00
	2017	330	350	320	50	316,000.00	316,000.00	177,000.00	177,000.00
	2018	420	310	290	50	913,058.00	913,058.00	500,000.00	200,000.00
TOTAL		2180	2180	2000	450	1,628,058.00	1,628,058.00	1,027,000.00	647,000.00

Total number of cases received during the period under review was 2,180 with a yearly average of 436. Of the cases reported 2,180 people were arrested (100%). Of the total arrested, 2,000 people were prosecuted (91.7%). A total of 450 cases resulted in convictions (22.5%). Total value of the proceeds was US\$1,628,058.00 and US\$1,628,058.00 was recovered (100%). Of the recovered amount US\$1,027,000.00 was seized (63.8%). The state managed to confiscate US\$647,000.00 which was 63% of the seized amount.

Trends/Sectors involved/ML rating

The trends in gold dealing involve illegal mining, illegal selling and possession by unregistered person and smuggling done by registered, unregistered and any other person. The Zimbabwe Republic Police's CID Minerals, Flora and Fauna Unit [MFFU] is the law enforcement unit responsible for investigative cases of illegal dealing in gold as well as cases of general smuggling. Zimbabwe's gold mining sector consists of many players where the majority is now registered with the Ministry of Mines but delivers smaller portions of their output to the state. A recommendation from the previous NRA report was to plug leakages, and as from year 2013 all registered miners are now being monitored by the law enforcement agencies who ensure that all gold obtained from the stamp mills is delivered to Fidelity Printers and Refiners, a subsidiary of the Reserve Bank of Zimbabwe which, in terms of the law, is the sole exporter of gold in the country.

A number of arrests were made on individuals trying to smuggle gold out of the country and for those who succeeded the gold is used to fund off shore accounts which are later used to import goods such as fuel, food stuffs for retail shops and mushrooming tuck shops, electrical gadgets, vehicle spare parts and other resalable goods into Zimbabwe. This therefore means proceeds from gold dealing are laundered into various sectors.

Gold dealing is an organized crime and has a transnational character as seen from the trends in smuggling and funding offshore accounts.

The ML threat of Illegal dealing with gold is rated high.

(h) Illegal dealing in precious stones

Dealing or possession of precious stones without a permit or license is covered in sect 3 (1) of the Precious Stones Act, Chapter 21:06.

Table 2. 12 Illegal dealing in precious stones statistics.

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
ILLEGAL DEALING IN PRECIOUS STONES TOTAL	2014	70	80	70	20	-	-	-	-
	2015	80	100	80	30	-	-	-	-
	2016	80	75	70	30	-	-	-	-
	2017	50	50	50	14	513,000.00	500,000.00	-	-
	2018	60	70	60	10	45,000.00	30,000.00	-	-
		340	375	330	104	558,000	530,000	0	0

Total number of cases received during the period under review was 340 with a yearly average of 68. Of the cases reported, 375 people were arrested (110.3%). Of the total people arrested, 330 people were prosecuted (88%). A total of 104 cases resulted in convictions (31.5%). Total value of the proceeds was US\$558,000.00 and US\$530,000.00 was recovered (94.98%).

Trends/Sectors Involved/ML rating

The trends noted are mainly of employees conniving to steal diamonds as can be seen from the cases reported. In the previous NRA report there was a lot of proceeds being generated under the Precious stones act through diamond dealings. Zimbabwe has closed most of the diamond mines leaving only two in Chiyadzwa. This has plugged illegal dealings and smuggling of the precious stones. However, there is intelligence suggesting that there are syndicates of illegal miners invading the diamond fields by night and panning for diamonds which are being sold on the black market and smuggled outside the country. The proceeds being generated are low and the ML threat in Illegal dealing in precious stones is rated **low**

(i) Wildlife Poaching

The Parks and Wildlife Act criminalizes unlawful killing of wildlife, possession or dealing in specially protected animals. These animals include; pangolin, rhino and elephants, possession or dealing in raw ivory.

Table 2. 13 Wildlife poaching statistics.

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
WILDLIFE POACHING	2014	380	380	360	210	400,000.00	-	-	-
	2015	510	520	490	250	785,000.00	-	-	-
	2016	530	460	480	220	1,200,000.00	500,000.00	500,000.00	-
	2017	280	230	220	80	2,587,500.00	23,180.00	22,000.00	-
	2018	370	310	300	140	3,417,751.00	61,025.00	44,000.00	-
TOTAL		2070	1900	1850	900	8,390,251.00	584,205.00	566,000.00	-

Total number of cases received during the period under review was 2,070 with a yearly average of 414. Of the cases reported, 1,900 people were arrested (91.8%). Of the total people arrested, 1,850 people were prosecuted (97.4%). A total of 900 cases resulted in convictions (48.6%). Total value of the offences was US\$8,390,251.00 and US\$584,205.00 was recovered (6.96%). Of the recovered amount US\$566,000.00 was seized (96.88%).

Trends/Sectors involved/ML rating

Poaching activities have decreased in Zimbabwe. Most of the cases involve poaching of pangolins which are being hunted for luck and charm purposes. Trends in some of the reported cases indicate that locals are arrested trying to find buyers for their pick of pangolins or elephant tusks. There are no significant proceeds generated in crimes of this nature, but there is a possibility that higher prices are being fetched in destination countries, especially in Asian countries. Poaching and Illegal wildlife trafficking have a transnational effect. Most of the trophies are destined beyond the borders of Zimbabwe. **The ML threat is rated low.**

(j) Drug Smuggling

Offenders for this offence are charged under the Criminal Law (Codification and Reform) Act - section 156 (dealing in drugs); 157 (possession and use of drugs); 158 (dealing, possession or use outside Zimbabwe); 159 (use of premises for drugs); 160 (concealing, disguising or enjoying the proceeds of the unlawful dealing in dangerous drugs)

Table 2. 14. Drug smuggling statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED			
DRUG SMUGGLING	2014	4660	4880	4660	3740	35000	35,000.00	-	28,000.00			
	2015	5080	5445	5080	4210	74000	74,000.00	-	74,000.00			
	2016	3820	4140	3820	3250	28000	28,000.00	-	28,000.00			
	2017	3110	3310	3110	2740	949595	769,160.00	769,000.00	18,266.00			
	2018	4100	4650	4100	3350	844836	389,630.00	-	10,511.00			
TOTAL		20770	22425	20770	17290	1,931,431.00	1,295,790.00	769,000.00	158,777.00			

Total number of cases received during the period under review was 20,770 with a yearly average of 4,154. Of the cases reported 22,425 people were (107.9%). Of the total people arrested, 20,770 people were prosecuted (92.6%). A total of 17,290 cases resulted in convictions (83.2%). Total value of the offences was US\$1,931,431.00 and US\$1,295,790.00 was recovered (67.9%). Of the recovered amount US\$769,000.00 was seized (59.35%) The state managed to confiscate US\$158,777.00 which was 20.65% of the seized amount.

Trends/Sectors involved/ML rating

Reports from the Police indicate that there has been an increase in cases of drug abuse by the youths. It is suspected drug peddlers have found a market in students and the young unemployed youths. Drugs mainly found are Dagga, Ephedrine, a few cases of cocaine and cough mixtures amongst other substances. Dagga mainly comes from Malawi and Mozambique, where it is smuggled through official crossing points using trucks and some through illegal entry/exit points.

Ephedrine and Cocaine are mainly in transit to countries from Asia, where most of the drugs are suspected to be coming from India. It has been noticed that most of those arrested are smokers, and peddlers. The kingpins always go scot free as they are never identified, possibly due to the fact that they are based outside Zimbabwe.

There are various sectors where the proceeds are laundered through, which include bureau de change, the formal banking sector as well as the informal sector. For the greater part of the period under review, criminals had been taking advantage of our multi-currency system to convert proceeds from other countries into USD, before either smuggling the cash or wiring it through personal bank accounts or use it to buy gold and smuggling it out of the country. Drug dealers from neighboring jurisdictions who deal with dagga are known to be purchasing farm implements from proceeds they get in selling their drugs and take them out of Zimbabwe.

Drugs have transnational transactions. Intelligence on the ground indicate that some of the proceeds from neighboring countries are routed through Zimbabwe, where they are converted into USD before being transferred to the source markets. **The ML threat of drug dealing if rated medium.**

(k) **Tax evasion**

Tax evasion is the result of deliberate suppression of facts or the deliberate distortion of facts for the purpose of evading the payment of taxes due to the State. Section 182 of the Customs and Excise Act, also defines it as failure to declare and pay duty on imported goods.

Table 2. 15 Tax evasion statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
TAX EVASION	2014	0	0	0	0	-	-	-	-
	2015	140	130	130	80	-	-	-	-
	2016	70	70	70	40	-	-	-	-
	2017	40	40	40	30	1,108.00	-	-	-
	2018	20	20	20	14	557.00	-	-	-
		270	260	260	164	1665	0	0	0

Total number of cases received during the period under review was 270 with a yearly average of 54. Of the cases reported 260 people were arrested (96.3%). Of the total people arrested, 260 people were prosecuted (100%). A total of 164 cases resulted in convictions, (63.1%).

Trends/Sectors involved/ML rating

The trends from cases that have been received by the police include, non-registration or non-remittance of tax due to the State, understatements of income, and/or overstatement of deductible expenditure, some cases involve an element of forgery where records are falsified and transfer pricing. In the previous NRA report, tax evasion was one of the high predicate offence generating proceeds that are laundered through externalization of taxable business funds disguised as personal funds. There has been a reduction in the cases of such externalization, after tightening control measures on the use of personal accounts. Tax evasion cuts across all sectors of business and proceeds being generated are laundered in various sectors. **The ML threat is rated low.**

(I) Money Laundering

According to the MLPC Act, [Chapter 9:24], Money Laundering is defined as,

Any person who converts or transfers property

- (a) that he or she has acquired through unlawful activity or knowing, believing or suspecting that it is the proceeds of crime; and
- (b) for the purpose of concealing or disguising the illicit origin of such property or of assisting any person who is involved in the commission of a serious offence to evade the legal consequences of his or her acts or omission; commits and offence.

Table 2. 16 Money Laundering statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
MONEY LAUNDERING	2014	2	2	2	0	118,700.00	-	-	-
	2015	7	7	7	0	1,336,608.00	-	-	-
	2016	4	2	2	1	1,444,542.00	275,000.00	-	-
	2017	8	13	8	1	8,248,638.00	-	10,000.00	10,000.00
	2018	11	17	8	2	22,563,194.00	4,500.00	4,500.00	4,500.00
		32	41	27	4	33,711,682.00	2,79,500.00	14,500.00	14,500.00

Total number of cases received during the period under review was 32 with a yearly average of 6 cases. Of the cases reported 41 people were arrested which translated to 128.1%. Of the total people arrested, 27 people were prosecuted (65.9%). A total of 4 cases resulted in convictions (14.8%). Total value of the offences was US\$33,711,682.00 and US\$279,500.00 was recovered 0.83%. Of the recovered amount US\$14,500.00 was seized (5.19%). The state managed to confiscate US\$14,500.00 (100%).

Trends/Sectors involved/ML rating

The majority of money laundering cases emanated from STRs involving illegal buying and selling of cash using the banking and mobile money systems. Some of the funds used to purchase the forex are genuinely acquired funds, but due to shortages of forex, most businesses have resorted to buying the forex on the parallel market for importation if their raw materials. Other ML cases emanated from predicate offences of Fraud, dealing in gold and corruption. Proceeds from predicate offences are also being laundered through the Real Estate sector, where proceeds of crime are used to buy properties either for resale or rental purposes. The transport sector is also targeted by money launderers who buy a fleet of buses, combis or taxis [mushikashika] where they generate more wealth. In some instances, offenders start companies and small businesses with dirty money; from these businesses they generate legitimate income. **The ML threat is medium.**

COUNTRY OF ORIGIN BREAKDOWN.

Origins of proceeds of crime which are laundered in Zimbabwe are broken into four categories, where (A), **these are offences committed within the jurisdiction of Zimbabwe** and whose proceeds are consumed and laundered in Zimbabwe, (B) **are offences committed in foreign jurisdictions** but whose proceeds are consumed or laundered in Zimbabwe, (C) **are offences committed in both Zimbabwe and foreign jurisdictions** and whose proceeds are consumed or laundered

in Zimbabwe and (D) **are offences whose country of origin cannot be identified.**

(a) **Offences committed within the home jurisdiction.**

According to information gathered during the national risk assessment between the period 2014 to 2018 proceeds of crime from Zimbabwe were found to have a medium level of ML Threat. This was due to the conclusion on the trends and amount of proceeds being generated from the four predicate offences generating high proceeds of crime.

(b) **Offences committed in foreign jurisdictions.**

Offences committed in foreign jurisdictions were assessed to have a ML threat level of Low, owing to a reduction in the prevalent cases having external linkage such as fraud, theft of motor vehicles and drug peddling. The absence of cases in this category reflects the low rate of offences committed in foreign jurisdiction whose proceeds are laundered in Zimbabwe.

Table 2. 17 ML threat Origin breakdown.

MONEY LAUNDERING THREAT ORIGIN BREAKDOWN	ML threat				Trend				
	High	Medium/ High	Medium	Medium/ Low	Low	No change	Increasing	Decreasing	
ORIGIN OF THE LAUNDERED PROCEEDS									
A. Offenses committed within the home jurisdiction			X					X	
B. Offenses committed in foreign jurisdictions					X			X	

(c) Offenses committed both in home and foreign jurisdictions

Offenses committed both in Zimbabwe and foreign jurisdiction was rated to be medium low. Analysis of data from law enforcement agencies and open sources indicated that very few predicate offences investigated were transnational in nature. Cases which had a cross border effect mainly related to predicate offences which were committed locally and the proceeds laundered abroad, in countries like South Africa.

(d) Origin country cannot be identified

Offences whose jurisdiction could not be identified was rated low, just as in the previous NRA report.

The country was able to identify the jurisdictions where the significant amount of proceeds comint out of Zimbabwe, were originating from, and also, those proceeds that were emanating from crimes committed within Zimbabwe.

The law enforcement agency data and open sources indicates that proceeds of crime into Zimbabwe are coming from crimes of smuggling, dagga, second hand goods coming from abroad, with gold, tobacco and cigarettes being smuggled through or to South Africa.

SECTOR BREAKDOWN

The NRA's Module 1 assessed the twelve sectors in the economy for ML threat, and these were rated as follows: five (5) had a High threat level, three (3) were at Medium high, two (2) had Medium threat level and two (2) were at low.

Table 2. 18. Sectorial rating of ML Threat in Zimbabwe.

NO.	SECTOR	RATING OF ML THREAT	BACKGROUND TO RATING
1.	Banking	High	<ul style="list-style-type: none"> - The majority of the ML cases were detected through Banks. - Easily accessible
2.	Real Estate	High	<ul style="list-style-type: none"> - Many people are aspiring to have a home in the city and it was noted a big number of criminal proceeds are channeled to buy stands or houses - There has been lots of uncontrolled sales of stands ranging from cooperatives, fake and genuine land developers and land barons, this availability of land is pulling factor to launderers.
3.	Car dealers	High	<ul style="list-style-type: none"> - Easily accessible - The ordinary second hand Japanese cars do not raise much suspicion.
4.	Mining Sector	High	<ul style="list-style-type: none"> - Zimbabwe is a gold country, gold is found in every region and even on private land making it accessible to almost everyone and difficult to control - There is a high number of illegal miners (artisanal miners) - A lot of black market and illegal gold dealing
5.	Mobile financial service providers	High	<ul style="list-style-type: none"> - Mobile money services have become the mode of payment for the majority of Zimbabweans. - Buying and selling of cash has become rampant through use of mobile money agents, especially Econet agents - Handle large volumes of both cash and mobile money transactions.

6.	Lawyers	Medium High	<ul style="list-style-type: none"> - Lawyers Trust accounts are suspected to be used for hiding criminal's funds - Their work involves dealing with criminals - Handle high value transactions - They only receive and secure the funds but do not trace the source to check whether the money they are holding is from a clean source or not.
7.	Accountants and Auditors	Medium High	<ul style="list-style-type: none"> - Accountants handle high values transactions - Difficult to monitor.
8.	Precious stones and metals	Medium High	<ul style="list-style-type: none"> - Easily smuggled. - A small quantity can have a big value - Easily disposable.
9.	Casinos and other gaming activities	Medium	<ul style="list-style-type: none"> - There is a new threat of online casinos which may be difficult to monitor.
10.	Pension Funds	Medium	<ul style="list-style-type: none"> - Low risk in this sector - Zimbabwe pension schemes have been affected by continuing changes in currency and downfall of the economy
11.	MTAs	Low	<ul style="list-style-type: none"> - MTAs have become obsolete in Zimbabwe due to the multicurrency regime. However, given the recent change over to a single currency, a reassessment of the sector is necessary. - Low risk due to volume of transactions.
	Securities	Low	<ul style="list-style-type: none"> - Low risk due to sector being well regulated. - KYC and DD high as most of its clients' transactions come through banks. - There has been no evidence of criminal activities nor did insider trading report.

CONCLUSION

The overall ML threat was rated Medium low (ML) taking into consideration the domestic ML threat and ML threat from abroad.

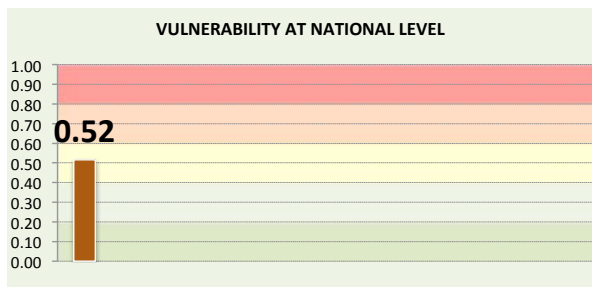
CHAPTER 3

NATIONAL VULNERABILITY ASSESSEMENT.

KEY FINDINGS- ML VULNERABILITY

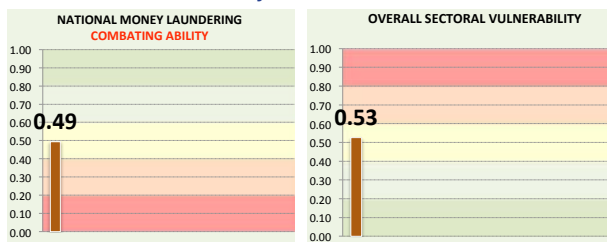
Zimbabwe's overall money laundering vulnerability was found to be medium, with a score of 0.52.

Figure 3. 1. ML vulnerability at National level.

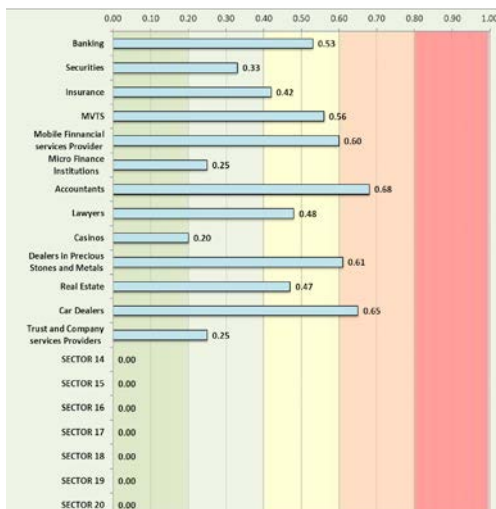


This was due to a Medium National Combating ability of 0.49 and a Medium overall sectoral vulnerability of 0.53. National combating ability assessed the ability of Zimbabwe to prosecute and penalize instances of money laundering that occur and to forfeit the proceeds and instrumentalities of the offences. Sectoral vulnerability assessed the overall vulnerability of various sectors of the economy to successful money laundering. The national money laundering combating ability and the overall sectoral vulnerabilities are as depicted in the figures below:

Figure 3. 2 (a) and (b). ML Combating Ability at National level and Overall Sectoral Vulnerability.

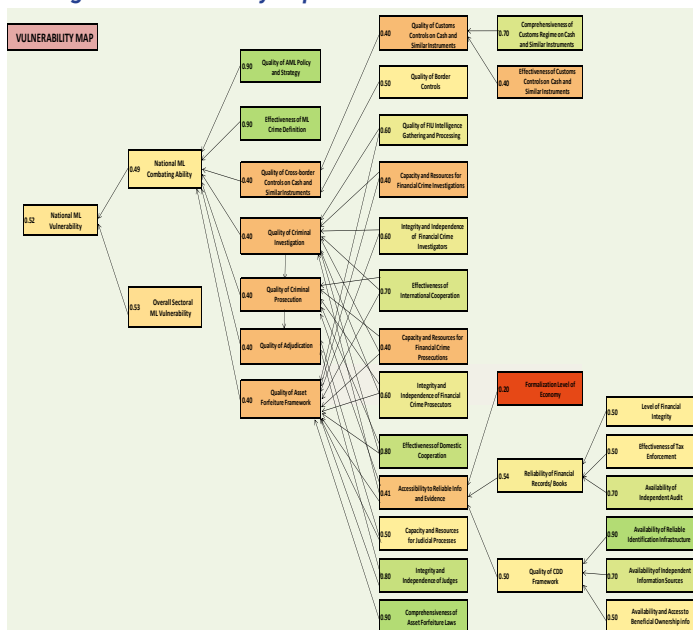


The sectoral vulnerabilities were as tabulated below:



The figure below shows the overall vulnerability map combining the components of the national combating ability and the sectoral vulnerabilities.

Figure 3.3 Vulnerability Map.



NATIONAL COMBATING ABILITY

There are a total of 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 sectors that provided data included; Zimbabwe Revenue Authority (Customs and Domestic Taxes), Financial intelligence Unit, Zimbabwe Republic Police CID, Judicial Service Commission (JSC), National Prosecution Authority, Attorney General's Office.

The national combating ability is **Medium** with a score of **0.48**, meaning that Zimbabwe is doing fairly well as far as the ability to combat ML is concerned. The diagram on figure 3,4 summarizes the vulnerable areas in the Zimbabwean AML/CFT framework.

Figure 3. 4 Components of the National Vulnerability Assessments.

A. INPUT VARIABLES/NATIONAL ML COMBATING ABILITY FACTORS	ASSESSMENT RATING
Quality of AML Policy and Strategy	(0.9) Close to Excellent 0.9
Effectiveness of ML Crime Definition	(0.9) Close to Excellent 0.9
Comprehensiveness of Asset Forfeiture Laws	(0.9) Close to Excellent 0.9
Quality of FIU Intelligence Gathering and Processing	(0.6) Medium High 0.6
Capacity and Resources for Financial Crime Investigations (incl. AF)	(0.4) Medium Low 0.4
Integrity and Independence of Financial Crime Investigators (incl. AF)	(0.6) Medium High 0.6
Capacity and Resources for Financial Crime Prosecutions (incl. AF)	(0.4) Medium Low 0.4
Integrity and Independence of Financial Crime Prosecutors (incl. AF)	(0.6) Medium High 0.6
Capacity and Resources for Judicial Processes (incl. AF)	(0.5) Medium 0.5
Integrity and Independence of Judges (incl. AF)	(0.8) Very High 0.8
Quality of Border Controls	(0.5) Medium 0.5
Comprehensiveness of Customs Regime on Cash and Similar Instruments	(0.7) High 0.7
Effectiveness of Customs Controls on Cash and Similar Instruments	(0.4) Medium Low 0.4
Effectiveness of Domestic Cooperation	(0.8) Very High 0.8
Effectiveness of International Cooperation	(0.7) High 0.7
Formalization Level of Economy	(0.2) Very Low 0.2
Level of Financial Integrity	(0.5) Medium 0.5
Effectiveness of Tax Enforcement	(0.5) Medium 0.5
Availability of Independent Audit	(0.7) High 0.7
Availability of Reliable Identification Infrastructure	(0.9) Close to Excellent 0.9
Availability of Independent Information Sources	(0.7) High 0.7
Availability and Access to Beneficial Ownership Information	(0.5) Medium 0.5

Note: the higher the score, the better

The twenty-two (22), variables are explained in detail as follows:

Quality of AML Policy and Strategy (0.9)

The assessment established that Zimbabwe has well formulated AML/CFT policies and structures in place. These include;

- (i) The country's AML/CFT plan, that is, the AML/CFT Strategy 2015-2019, that arose from the first AML/CFT National Risk Assessment of 2015. The AML/CFT strategy clearly lays out national priorities and objectives in terms of combating money laundering and terrorist financing. The NRA was carried out by a diverse pool of participants drawn from law enforcement, government agencies (including the national intelligence service), supervisors and private sector players and civic society organizations with interests in ML and TF. The study considered the vulnerabilities of the largest economic sectors such as banks, insurance, DNFBPs, Other Financial Institutions etc. The NRA resulted in a DAIP which the country has been implementing since 2015. The DAIP has been the basis for allocating resources in the fight against ML. For example, the country has availed a budget of US\$1.8 million for capacity building of AML/CFT stakeholders in 2019. The MLPC Act was amended at least twice since 2015. The FIU recruited additional staff as recommended. Police and ZACC established specialized units to investigate ML and trace proceeds of crime.
- (ii) This 2019 NRA is the first review of the 2015 assessment and it is within the planned five years.
- (iii) In response to the findings of the 2015 NRA and the 2016 Mutual Evaluation Report, the country amended the Money Laundering and Proceeds of Crime Act by introducing Section 12 C, which formally provides for the establishment of an Anti-Money Laundering Advisory Committee (AMLAC), which is responsible for the formulation of AML/CFT Policy and advising the Minister of Finance and Economic Development.

- (iv) Section 12 D of the MLPC Act provides for the establishment of a National Task Force on AML/CFT, which is comprised of various agencies, namely; Ministry of Finance, Financial Intelligence Unit, Reserve Bank of Zimbabwe – Exchange Control, IPEC, ZACC, Zimbabwe Revenue Authority, Immigration Department, ZRP, Ministry of Foreign Affairs, and the Ministry of Justice. This committee meets as often as necessary but in any case not less than four times in a year to discuss AML/CFT programmes that promote national cooperation and coordination amongst members.
- (v) The country's high level of commitment to fight ML and TF as evidenced by the Minister of Finance being the administer of the MLPC Act.

However, the assessment noted that although some Economic sectors, such as banking, have conducted sectoral risk assessments, some sectors have not yet finalized their sectoral risk assessments. Even where sectoral assessments have been done, the findings have not yet been fully cascaded to all reporting entities under the respective sectors. It is anticipated that the findings of this 2019 NRA will further refine the country's AML/CFT Policy.

Effectiveness of ML Crime Definition (0.9)

ML is criminalized under section 8 of the Money laundering and Proceeds of Crime Act, which states that;

“a person commits the offence of money laundering if the person, converts or transfers property that he or she has acquired through unlawful activity or knowing, believing or suspecting that it is the proceeds of crime; and for the purpose of concealing or disguising the illicit origin of such property, or of assisting any person who is involved in the commission of a serious offence to evade the legal consequences of his or her acts or omission; conceals or disguises the true nature, source, location, disposition, movement

or ownership of or rights with respect to property, knowing or suspecting that such property is the proceeds of crime, acquires, uses or possesses property knowing or suspecting at the time of receipt that such property is the proceeds of crime, participates in, associates with or conspires to commit, an attempt to commit, and aiding, abetting, facilitating and counseling the commission of any of the offences referred to above. Knowledge, suspicion, intent or purpose required as elements of an offence”.

In order to prove that property is the proceeds of crime, it is not necessary for there to be a conviction for the offence that has generated the proceeds, or for there to be a showing of a specific offence rather than some kind of criminal activity, or that a particular person committed the offence”. This last part has been enhanced by Statutory Instrument 246 of 2019 which for “unexplained wealth orders”

The offence is applicable to all the serious offences including tax crimes and sea piracy. ML is treated as a separate offence in law and in practice as it is considered to be an ancillary offence to predicate offences. The Law provides for self-laundering.

Penalties for ML include a fine, of up to twice the value of proceeds laundered or US\$500 000, imprisonment for up to 25 years, and forfeiture of criminal proceeds and profit. The law provides for civil forfeiture and conviction based forfeiture. ML penalties are proportionately higher than most predicate offences.

Penalties are available for both natural and legal persons that include jail, fine and forfeiture for natural persons. The option for fine and forfeiture of property of equivalent value is administered for legal persons. Civil forfeiture is available where there is no conviction e.g. unexplained wealth orders. Criminal penalties for ML are dissuasive that is 25 years’ jail and/or fine of USD\$500 000 or twice the prejudice whichever is higher. Under these circumstances, Judges have a wide range of sentencing options, jail, fine, forfeiture which increase with severity of offence.

Since the enactment of the MLPC Act, at least three ML convictions have been recorded and four cases of ML are being prosecuted in the courts. The Police and the Zimbabwe Anti-Corruption Commission (ZACC) have established specialized Units to investigate ML and carry out asset forfeiture investigations. The FIU has continued with awareness campaigns targeted on all law enforcement agencies. To enhance the law, the country has also amended the tax laws through the amendment of the MLPC Act (2018) to provide for intelligence sharing with the FIU, so as to enhance the Unit's law enforcement support. Capacitating of Investigators, Prosecutors and Presiding Officers were given high priority in the Detailed Action Plan.

However, judges have not been availed with ML and TF training and there is no specialization yet although plans are afoot to establish a stand-alone economic crimes Court. There are no specific sentencing guidelines for money laundering.

Comprehensiveness of Asset Forfeiture Laws (0.9)

Asset Forfeiture is provided for in terms of the following legal instruments;

1. Section 50 of the MLPC Act,
2. Section 9 of the Prevention of Corruption Act,
3. The Criminal Matters (Mutual Assistance) Act
4. Civil Matters (Mutual Assistance) Act,
5. Criminal Procedure and Evidence Act,
6. Trafficking in Persons Act,
7. Customs and Excise Act.

These pieces of legislation were rated as sufficient to provide for the seizure, freezing and forfeiture of proceeds and instrumentalities of crime. Statutory Instrument 76 of 2014 also provides for the implementation of UNSCR 1267, 1373, and their Successor Resolutions in Zimbabwe. Statutory Instrument 56 of 2019 provides for the

implementation of UNSCR 1540 on proliferation.

Section 27A of the National Prosecuting Authority Act was amended to provide for the establishment of the Asset Forfeiture Unit in the NPA. Zimbabwean Asset Forfeiture laws extend to proceeds and instrumentalities of ML and its predicate offences as well as profits derived from offences and property of corresponding value held by the defendant or third parties.

The MLPC Act provides authorities with a legal basis to identify and trace the proceeds or property. It permits authorities to carry out, rapidly, provisional measures such as seizing or freezing, to prevent the transfer or disposal of the proceeds. It also provides authorities with a range of asset forfeiture tools, including criminal forfeiture, non-conviction based (NCB) forfeiture, enforcement of foreign NCB orders, and administrative forfeiture, consistent with domestic law. The law also ensures that the rights of bona fide third parties are safeguarded?

However, despite the comprehensive legal framework, the country has not recorded any significant cases of asset forfeiture, relating to money laundering, since the promulgation of the MLPC Act. The laws are comprehensive but have not been tested.

Quality of FIU Intelligence Gathering and Processing (0.6)

The FIU receives STRs mainly from the financial sector, such as banks, insurance companies, mobile financial service providers and money transfer agencies. In the DNFBP sector, the real estate sector started reporting STRs, but the volume is still low considering the risk of the sector as determined in 2015. The real estate sector has been issued with guidelines. Sector specific guidelines for casinos and precious metals and stones are also in place, but no STRs have been received so far. There are no AML/CFT guidelines for lawyers but the FIU and the Law Society have signed a Memorandum of Understanding. AML/CFT guidelines for the Microfinance sector are not yet in place. Guidelines for the Banking Sector, MTAs and BDCs are in place. The

FIU's Compliance Section is staffed with seven officers who supervise the entire financial sector and DNFBPs. The following Competent Supervisory Authorities are responsible for supervising other financial institutions; Insurance and Pension Commission (Insurance), Security Exchange Commission (Securities), RBZ Exchange Control (MTAs and BdCs), RBZ National Payment System (mobile money companies). The FIU Policy and Enforcement Section are staffed by two substantive officers.

The FIU Analysis section is staffed with eight substantive officers.

The FIU uses the goAML system for receiving reports, analyzing and disseminating intelligence reports to law enforcement agencies. The FIU has an online access to the database of the Registrar General of Births and Deaths as well as the National Payments System's Electronic Financial Surveillance (EFS). STR receipts and dissemination for 2014 to 2018 were as tabulated below:

Table 3. 1 Summary of FIU's STR Receipts and dissemination to LEAs.

FIU Statistics						
YEAR		2014	2015	2016	2017	2018
STRs Received		511	860	1022	1728	2028
STRs Disseminated	CID Minerals	5	5	0	0	0
	CID CCD	18	53	26	74	33
	ZIMRA	59	51	19	295	10
	CID Law & Order	0	0	0	1	2
	ZACC	0	0	0	0	3
	CID PACU	0	0	0	0	1
	Immigration	0	1	0	0	0
	CTU	0	1	0	1	2
	Total	82	109	45	371	51

Table 3. 2 Incoming request from foreign FIUs, 2014 - 2018.

Year	2014	2015	2016	2017	2018
Number of requests received from other FIU	5	9	9	2	12
Number of requests granted	5	9	9	2	12
Number of requests refused	nil	nil	nil	nil	nil

Table 3. 3 Outgoing requests to foreign FIUs.

Year	2014	2015	2016	2017	2018
Number of requests sent to other FIU	13	22	19	13	59
Number of requests granted	13	22	19	13	59
Number of requests refused	nil	nil	nil	nil	nil

Capacity and Resources for Financial Crime Investigations (including asset Forfeiture) (0.4)

Capacity of financial crimes and asset forfeiture investigators, in this report, refers to skills, experience, resources as well as powers required to effectively investigate the offences.

ML and predicate offence investigations are handled by all CID stations across the country but major cases are handled by the CID Commercial Crimes Division. There is an Asset Forfeiture Unit within CID CCD. AFU focusses on asset forfeiture investigations. It supports ML investigations by other CID Units. The CID Law and Order Division investigates human trafficking cases and related ML. The Zimbabwe Anti-Corruption Commission has also established an Asset Forfeiture Unit to support their asset forfeiture investigations relating to ML investigations and related crimes. Summary of ML investigative framework is as tabulated below;

Table 3. 4 Agency investigative framework.

Agency	Focal Crimes
<i>CID Asset Forfeiture Unit</i>	ML investigations and parallel financial investigations in support of asset forfeiture
<i>CID Commercial Crimes Division</i>	Fraud tax evasion and related ML.
<i>CID Law and Order</i>	Human Trafficking and related ML, TF and PF
<i>CID Minerals Flora and Fauna</i>	Precious stones and metals, poaching and related ML.
<i>Zimbabwe Anti-Corruption Commission and ZACC AFU</i>	Corruption, Fraud and related ML
<i>CID Police Anti-Corruption Unit</i>	Corruption Investigation
<i>CID Drugs</i>	Drug trafficking and related ML
<i>Zimbabwe Revenue Authority</i>	Tax evasion, smuggling

- The CID AFU is the only Unit that entirely focuses on ML and predicate offence investigation. The Unit is headed by a Chief Superintendent and tasked to investigate cases of money laundering and asset forfeiture. Currently, the Unit has a staff compliment of 22. The officers were selected from CID CCD and CID PACU.
- ZACC has an Asset Forfeiture Unit for investigating ML and Asset Forfeiture. It has a staff compliment of 4 out of a required 16 to cover the whole country. One officer has attended ML investigation course in Egypt whilst another attended an Asset Forfeiture course in Namibia under Interpol.
- No significant success has been achieved in the investigation of ML and Asset Forfeiture so far.
- The investigative authorities effectively utilize financial intelligence. The AFUs are the primary recipients of most dissemination from the FIU. They have been actively submitting requests for financial records of subjects under investigation, in line with the provisions of the MLPC Act, and they have initiated cases that are already under prosecution.
- There is a mechanism in place to ensure that competent authorities have a process to identify assets without prior notice to the owner. Law enforcement agencies can collect information on asset ownership from the Company Registry and Deeds Registry. They also access information from the FIU. FIU can obtain information from ZIMRA without court order.
- Money laundering and asset forfeiture investigators have powers to use court orders, search warrants and unexplained wealth orders, issued by High Court, and subpoenas to obtain records held by financial institutions, DNFBPs and other natural or legal persons, for the search of persons and premises, for taking witness statements, and for the seizure and obtaining of evidence.

- Investigatory authorities are able to cooperate effectively with other domestic agencies through the facilitation of the AML/CFT National Task Force and its relevant operational sub committees. International co-operation is achieved through Interpol, SARPCO, ARINSA, MLA Process and MOUs.

In Zimbabwe, the work of asset forfeiture (AF) investigators and money laundering (ML) investigators overlaps as this is done by the same Units.

In the past, there was a challenge of staff turnover where skilled ML investigators were transferred to other Units. The Commissioner General of Police has assured the National Task Force on AML/CFT that ML/TF experts will be retained in their units for extended periods of at least 3 years. Law enforcement agencies are now linked to FIU via goAML.

However, investigators of ML and Asset Forfeiture still need more specialized training in financial investigation. The capacity building subcommittee of the national task force secured a budget of US\$1.8 million for the 2018-2019 2019-2020, for this capacitation. The capacity of financial crime investigators and asset forfeiture, within the specialized units, has improved as compared to 2015. However, CID officers from stations outside the specialized units are not yet fully trained in financial investigations. The Units require ICT equipment and reliable internet connectivity to enhance communication with the FIU through the goAML platform.

Integrity and Independence of Financial Crime Investigators (including. AF) (0.6)

ML investigators are protected from political interference by the constitution, the Police Act, and their internal code of conduct. There are legal safeguards to preserve integrity of investigators. The Police Act gives specific provisions safeguarding the independence of the Police Investigations to ensure they are carried out without interference. There are high level cases in the courts. Presidential pronouncements

against corruption and crime have demonstrated high level of political commitment and also support for law enforcement efforts. Forfeitures are still very low. There are ML cases under prosecution in the courts and the LEAs have secured some convictions and forfeiture.

However, there have been allegations in the media of investigators being offered kickbacks for them to drop cases, but these allegations have never been substantiated. Zimbabwe is rated number 160 out of 175 countries on Transparency International's corruption perception index.

Capacity and Resources for Financial Crime Prosecutions (incl. AF) (0.4)

To date, 15 prosecutors have been trained in ML prosecution and Asset forfeiture by ARINSA through the prosecutor placement program under the South African AFU. The rest of the prosecutors are moderately skilled in AML/CFT. The NPA indicated that it is planning to increase this number but this has not been possible due to budgetary constraints. Prosecutors are able to obtain access to all necessary documents, information and witnesses and/or other relevant individuals for use in prosecutions through subpoenas, and court orders. Prosecutors have the skills and knowledge they need to understand the flow of proceeds of crime and present such cases to the court. However, the NPA has little experience in working with forensic experts, and the NPA appears to be insufficiently funded to execute its mandate.

The success rate, in the prosecution of money laundering cases is still very low, despite the large numbers of cases involving ML predicate offences. The number of trained prosecutors is too low as compared to numbers of potential ML cases that are brought before the courts countrywide.

Integrity and Independence of Financial Crime Prosecutors (incl. AF) (0.6)

Safeguards are in place to preserve integrity and independence of the

Zimbabwean prosecutors (at law and in practice). The Constitution of Zimbabwe and NPA Act emphasize the point as follows:

“Section 261 Conduct of officers of National Prosecuting Authority

- (1) *The Prosecutor General and officers of the National Prosecuting Authority must act in accordance with the Constitution and the law.*
- (2) *No officer of the NPA may, in the exercise of his or her functions-*
 - (a) *Act in a partisan manner;*
 - (b) *Further the interests of any political party or cause; or*
 - (c) *Prejudice the lawful interests of any political party or cause; or*
 - (d) *Violate the fundamental rights of freedoms of any person.*
- (3) *Officers of the NPA must not be active members or office-bearers of any political party or organisation.*

An Act of Parliament may make further provisions to ensure the political neutrality of officers of the National Prosecuting Authority.”

NPA Code of Ethics and Standard Operating Procedures provides that prosecutions of alleged money laundering and related financial offenses are instituted without interference, political or social pressure, corruption, intimidation or abuse of office. There is high level support at the level of the President on this issue as evidenced by his appointment of a special team of prosecutors, to focus on corruption cases, which has since been placed under the administrative control of the Prosecutor General.

The President of Zimbabwe, The Chairperson of ZACC and other senior Government officials have repeatedly made pronouncements, through the media, of a policy of zero tolerance to corruption, especially within the NPA.

The pace or outcome of ML prosecutions is not influenced by interference, political or social pressure, corruption, intimidation or abuse of office. Current ML investigations are taking long to complete due to logistical issues.

However, the AML/CFT stakeholders have 5 disciplinary and criminal cases involving prosecutors. These cases are related to corruption. Zimbabwe is rated number 160 out of 175 countries on Transparency International's corruption perception index.

Capacity and Resources for Judicial Processes (incl. AF) (0.5)

Zimbabwean Judges who preside over money laundering and associated predicate offenses and asset forfeiture cases are able to function effectively because the criminal bench is adequately structured, funded, staffed by persons with appropriate educational background, training and skills. However, they have not yet been given specialized training in regard to financial crimes (including ML and AF), financial products and financial processes. Judges are provided with sufficient financial, technical and other resources to perform their functions. There is a special commercial crimes court that deals with financial matters, both civil and criminal. However, this court was recently established in 2019 and its effectiveness is yet to be tested.

Integrity and Independence of Judges (incl. AF) (0.8)

Judges have security of tenure and cannot be unilaterally removed from office. Due process, in the form of a tribunal appointed by the State President is required to investigate misconduct by judges.

There is a high level buy in, in the fight against financial crime, ML and corruption and the President has continually made pronouncements in

support of the fight against this type of crime.

There is no evidence of any interference in criminal proceedings involving influential members of society. The pace or outcome of proceedings/trials of alleged money laundering and related financial crime offenses is not influenced by interference, political or social pressure, corruption, intimidation or abuse of office. The pace or outcome of proceedings/trials of asset forfeiture cases appears to be free from influence through political or social pressure, corruption, intimidation or abuse of office.

It appears that proceedings/trials against powerful members of society and high-profile criminals are instituted and concluded in an objective and professional manner. High Profile PEPs at the level of Ministers of government and owners of corporate entities have appeared in court. Asset forfeiture proceedings/trials affecting powerful members of society and high-profile criminals appear to be instituted and concluded in an objective and professional manner.

However, Zimbabwe is ranked number 160 out of 175 on the Transparency International's corruption perception index. The country has also seen a few cases of money laundering and asset forfeiture going through the courts.

Quality of Border Controls (0.5)

The greater part of the Zimbabwe-Mozambican border is not secured and is considered as porous. There are many cases of smuggling of various goods through the border. Smugglers use motor vehicles to move goods across the border. The border has prominent routes for cigarette and other contraband smuggling. There are many illegal border passes that are relatively convenient due to the absence of geographical/natural barriers.

South Africa - Zimbabwe border is also porous although it is manned by guards from both countries. Cigarette smuggling is common along the

border, where it is reported to be facilitated by border guards. Cases of border jumping into South Africa, by Zimbabwean citizens are common. Other goods smuggled across the border include basic commodities, precious metals and precious stones. Cases of human trafficking have also been reported.

The Botswana border is also known for cases of gold, diamonds and cash smuggling. Current cases in the courts also involve top businessmen with Business interests in Western Zimbabwe.

Comprehensiveness of Customs Regime on Cash and Similar Instruments (0.7)

Section 11 of the MLPC Act provides that physical cross-border transportation of currency and bearer negotiable instruments should be disclosed to a customs officer, upon request. All disclosures are relayed to the FIU, in real time, through the goAML system. The FIU analyses the disclosures and where suspicion of ML is identified, the case is escalated to relevant law enforcement agencies for investigation and possible prosecution and forfeiture.

Section 11 of the MLPC Act provides for a fine not exceeding US\$100 000 or imprisonment for a period not exceeding twelve months or both such fine and such imprisonment for false disclosure of currency or bearer negotiable instruments. Customs Act seizes all undeclared cash and BNIs and stones and metal.

Over and above the US\$100 000 fines, the falsely declared currency precious stones or BNIs may be subject to customs seizure.

Effectiveness of Customs Controls on Cash and Similar Instruments (0.4)

Section 11 of the Money Laundering and Proceeds of Crime Act provides for a disclosure system where travelers are required to disclose cash, BNI and precious metals and stones upon request by a customs officer. This requirement is communicated to travelers through airline travel

information manuals. Customs started submitting cash declarations to the FIU, in February 2019, through the goAML system. All major border posts are registered on the goAML platform. Reports are currently being received from Harare International Airport and Chirundu only. The Program is being rolled out to other borders. At the time of writing this report, a total of 18 reports had been received by the FIU. All the reports were on individual travelers. Airports and some border posts have x - ray machines to screen travelers. Some of the smaller border posts do not have such equipment. Staff is available to carry out random searches on suspected cash or precious stone smugglers. Dogs are also available at selected border posts but they are mainly for drugs screening and are not trained to screen cash and precious stones and metals smugglers.

For incoming travelers, customs department uses the form 47 as primary document for declaration. For outgoing travelers, the department uses provisions of the Exchange Control Act which limit the authorized amount for cash exports. Exchange Control is however silent on BNIs and precious stones and metals.

However, there have been few seizures of cash, precious stones and metals at the borders, despite the widely held perception that a lot of gold, diamonds and cash are being smuggled out of the country. This is evidenced by the number of cases of cash smuggling that have been initiated through disclosures from foreign jurisdictions. The country has since decided to migrate to a full declaration system.

Effectiveness of Domestic Cooperation (0.8)

There is an AML/CFT National Task Force established in terms of Section 12D of the MLPC Act, which coordinates co-operation between all agencies involved in the fight against ML and TF.

Table XX goes to show the domestic cooperation amongst FIU and AML/CFT stakeholders, including law enforcement agencies.

Table 3.5 Domestic requests received by the FIU

Agency	2015	2016	2017	2018
ZIMRA	3	14	23	55
Immigration	5	4	5	7
National Intelligence Service	2	4	8	24
CID HQ	2	0	1	0
CID CCD	17	17	22	63
CID Minerals Flora and Fauna	1	1	0	2
CID Law and Order	1	3	2	5
Interpol NCB Harare	0	0	1	1
ZACC	0	1	1	16
NECI	0	1	2	1
CID Anti-Corruption Unit	0	0	0	6
CID Asset Forfeiture Unit	0	0	0	13
CID Homicide	0	0	0	3
CID Vehicle Theft Squad	0	0	0	5
RBZ Financial Markets	0	0	0	1
TOTAL	31	45	65	201

The Task Force is backed by a binding Charter and it has subcommittees which focus on certain key areas such as law enforcement, capacity building, prosecution and legal reforms. Joint investigations do happen involving several law enforcement agencies.

The Zimbabwe AML/CFT National Task Force comprises of FIU, Police, Immigration, ZACC, ZIMRA, SECZIM, IPEC, NPA, AG's Office, Company Registry, Ministry of Mines and other key AML/CFT players.

The National Task Force, by law, meets for not less than four times per year. It has been recently focused on the implementation of the findings of the 2015 NRA and 2015 MER. It undertook the process successfully.

In the past, domestic co-operation was, in part, hindered by the tax laws which prohibited release of tax information without a court warrant. This has been rectified through the amendment of ZIMRA laws to allow sharing tax information with the FIU. Joint investigations have been done under the auspices of the task force.

Effectiveness of International Co-operation (0.7)

Zimbabwe renders and requests international co-operation through the Criminal Matters (Mutual Assistance Act), Police co-operation under Southern African Region Police Chiefs Cooperation Organisation (SARPCCO) and The International Criminal Police Organization (Interpol), MOUs between Competent Authorities, including the FIU (MLPC Act). Zimbabwe is a member of the ARINSA network. It also a member of SARPCO and FIU co-operates with 13 countries under MOUs. The Criminal Matters (Mutual Assistance) Act requires the country to render international co-operation on an urgent basis. Beneficial ownership information, for large companies owned by trusts and legal persons, is still unclear. However, most Zimbabwean businesses are informal and are owned by identifiable individuals. According to IMF, 48% of Zimbabwe GDP is contributed by informal businesses. Zimbabwe is able through statute, to co-operate with foreign jurisdictions in ML investigations and Asset Forfeiture.

The Zimbabwean law was amended in 2013 to incorporate into the Criminal Matters (Mutual Assistance) Act [Chapter 9:06]

- “(4) References to requests for assistance in criminal matters and to information contained in such request or accompanying such request in a document, as including references to such information transmitted by electronic or digital means, under the following conditions—
 - (a) (a) the sender of the request or document and the recipient must both use mutually agreed electronic or digital addresses; and
 - (b) the electronic or digital transmission embodying the request or document must be authenticated by the electronic signature of the sender or by other means mutually agreed; and
 - (c) the electronic or digital transmission embodying the request or document must be materialised in a paper copy printed by the recipient.

“2A Purpose of Act and powers and responsibilities of Prosecutor-General

- (1) *The purpose of this Act is to enable the Prosecutor-General and appropriate authorities to provide the widest possible range of cooperation to each other for purposes of mutual legal assistance in criminal matters, including (without derogating from the generality of the foregoing) mutual legal assistance in connection with criminal investigations and proceedings related to money laundering and financing of terrorism and to associated predicate offences.*
- (2) *This Act shall be construed in such manner as best ensures the attainment of its purpose referred to in subsection (1).*

- (3) *The Prosecutor General has the responsibility and power to make and receive requests for assistance in any criminal matter in accordance with this Act, and in so doing shall ensure the timeous, expeditious and proper processing of the same, for which purpose the Prosecutor General may avail himself or herself of the services of the International Criminal Police Organization (commonly called “Interpol”).*

The NPA coordinates LEAs in responding to MLA requests to ensure timely responses. Zimbabwe does use Interpol for intelligence sharing mainly by the Police. However, Zimbabwe is not yet a member of the Egmont Group of FIUs.

Formalization Level of Economy (0.2)

In Zimbabwe, informal economic activities make a sizable contribution to the GDP. For example, 65% of gold production in Zimbabwe is attributed to informal artisanal miners. The country does not have laws compelling the formalization of economic activities. There are very limited incentives to migrate businesses from informal to formal. Zimbabwe is generally cash based economy where a large proportion of economic activities are cash based and unrecorded. The Zimbabwean economy is generally limited in terms of transparency.

In 2018, an IMF paper entitled “The Informal City: Rethinking the Urban Informal Sector in Harare | 2018” estimated that Zimbabwe’s informal sector contributed 48% to the country’s Gross Domestic Product.

Level of Financial Integrity (0.5)

Tax Issues

The level of tax compliance in Zimbabwe is rated as low due to the fact that the economy is mainly informal. ZIMRA is owed an estimated \$4billion, by big companies, in unpaid taxes. Tax evasion was rated as one of the top five predicate offences in the 2015 NRA. Zimbabwean tax laws require natural and legal persons to provide comprehensive

information about their income and assets to the tax authorities. ZIMRA has a client education campaign to educate the public on tax issues.

Bank Failures

Zimbabwe has a history of bank failures and closures. Some bank executives skipped out of the country following allegations of defrauding their banks.

Investigation and Penalties

ZIMRA avails tax information, in support of investigations, to the Police and other LEAs through a court order. ZIMRA avails tax information to the FIU on request, as provided in Section 34A of the Revenue Authority Act. ZIMRA co-operates with foreign jurisdictions on tax information. Penalties for evasion of tax include 3 times the value of goods, and/or seizure of goods, for customs violations, 100% penalty plus interest, for tax evasion. Serious tax offenders can be jailed. Investigators can rely on financial records of the business to trace the money flow when investigating ML cases.

Zimbabwe is ranked 160 out of 175 on the Transparency International corruption perception index.

Effectiveness of Tax Enforcement (0.5)

ZIMRA has a tax audit department and promotes self-assessment through client education. The Tax Audit Department is adequately staffed with appropriate skills mix. Penalties for evasion of tax include 3 times the value of goods, and/or seizure of goods, for customs violations, 100% penalty plus interest, for tax violation. Serious offenders can be jailed.

ZIMRA has sufficient operational independence as there are sufficient legal safeguards to protect the authority from interference. ZIMRA officials are bound by Official Secrecy provisions. ZIMRA has a code of conduct. Its staff members are required to declare their assets, and are

subjected to integrity checks by the Loss Control Department. All ZIMRA duties are carried out in teams, of at least two to prevent corruption. There is mandatory rotation of staff and officers are not allowed to accept tax payments in cash. ZIMRA has a taxpayer education program.

Availability of Independent Audit (0.7)

Zimbabwean audit firms do their work in accordance with Generally Accepted Accounting Standards (GAAS). According to RBZ Bank Supervision Guidelines, banks are to rotate auditors every five years. However, there are no similar provisions for the rest of the reporting entities. No integrity breaches have been committed by auditors in the past five years. All Zimbabwean public companies are required to evaluate auditors' performance. It is a legal requirement that Audit fees are disclosed to shareholders at AGM together with the financial statements. Audit committees of the audited firm have effective engagement with the audit firm.

However, current practice appears to be that supervisors of reporting entities are only directly engaging with internal auditors and there appears to be no interaction with external auditors. However, supervisors review audit reports of both internal and external auditors. Supervisors only engage auditors' regulatory body in the supervision of auditors themselves, as they are subject to AML Supervision. However, AML/CFT supervision of the accountants' sector is not yet effective. The FIU is engaged with PAAB to roll out an effective AML/CFT supervision framework.

Internal auditors of banks are doing AML/CFT audit. Very few external auditors are doing AML/CFT audit. All banks and insurance companies are audited regularly. Lawyers and Estate Agents are audited annually as part of their licensing renewal process. Accountants, Securities, MTAs, Bureau de Changes, Mobile Money Operators and Casinos are audited annually. They are, however, not subjected to AML/CFT audit.

Deposit taking Microfinance companies are required to be audited by an independent external auditor every year. Car Dealers and Trust & Company services providers are not essentially audited by an independent auditor.

Availability of Reliable Identification Infrastructure (0.9)

Zimbabwe has the Registry of Births Deaths and Marriages known as the Registrar General's Office. This office issues all identity documents including births certificates, national identity documents, passports, marriage certificates, and death certificates.

It has a comprehensive and reliable public information system that assists in the verification of clients' details. The Registrar General's Office gives automated viewing rights to reporting entities to verify records of clients, at a nominal fee.

The Central Vehicle Registry maintains a database on motor vehicle ownership. The Deeds Registry maintains a database on all real estate property ownership. The Deeds Registry is also responsible for the database on Trusts. The Company Registry maintains records on all registered companies. The Department of Immigration maintains a database on migratory data.

Availability of Independent Information Sources (0.7)

In terms of the MLPC Act, all designated institutions are required to keep financial records for at least five years. Secondary sources of customer information are Dunn, TransUnion and Bradstreet, a credit information registry, and the Financial Clearing Bureau. The Reserve Bank of Zimbabwe's Central Credit Registry also assists financial institutions in accessing secondary data on customers. The Exchange Control Division of the RBZ maintains databases on imports and exports, and the National Payments Systems has a database on all financial transactions. The FIU and most financial institutions are subscribed to Reuters World Check. Sanctions lists are also available on the internet.

However, the FIU has not yet established automated links with most of the domestic databases. The FIU is in the process of linking with the Registrar General's database. The rest of the databases are yet to be connected.

Availability and Access to Beneficial Ownership Information (0.5)

Deeds Registry Act was amended in July 2018, to require collection of Beneficial Ownership information when registering deeds of trust. Amendment was done through the MLPC Act and FIU is yet to discuss implementation with Deeds Office. Amendments to the Companies Act to include BO information were done, but they are yet to be presented to parliament. Banks, Financial Institutions and DNFBPs are required to collect beneficial ownership information at client on boarding. The FIU has access to beneficial ownership information collected by banks and DNFBPs. Law enforcement agencies accesses this information through the FIU or through subpoena. However, most Zimbabwean companies are small, and are owned by individuals; hence, details of shareholders represent the actual beneficial ownership information.

The current situation obtaining is that 48% of Zimbabwe GDP is contributed by informal businesses whose owners are readily known.

RECOMMENDATIONS/PRIORITIZATION

In order to increase the country's effectiveness in the fight against money laundering, the country will prioritize the following areas, in order of importance;

1. Enhancement of capacity and resources for financial crime investigators (including asset forfeiture). This capacitation is in the form of training and provision of material and human resources as well as the relevant technical equipment, including IT resources.
2. Enhancement of the capacity and resources of financial crime prosecutors (including asset forfeiture). This is also in the form of training and provision of adequate material and human resources,

including IT resources.

3. Integrity and Independence of financial crime investigators. Current remuneration for investigators is low and this leaves investigators vulnerable to bribery by criminals.
4. Formalization of the economy. Zimbabwe needs to take steps to formalize its economy in a bid to mitigate against the risk of money laundering.
5. Integrity and Independence of Financial Crime Prosecutors (including Asset Forfeiture). This can also be improved through the improvement of remuneration of prosecutors who deal with financial crime and asset forfeiture cases.
6. Capacity and resources for judicial processes (including asset forfeiture). Zimbabwe needs to avail AML/CFT training to presiding officers who preside over ML, TF and asset Forfeiture cases.
7. Increase effectiveness of Customs Controls and Cash and Similar instruments. In view of Zimbabwe's noted risk of cash and precious stones & metals smuggling, Zimbabwe should migrate from the current disclosure system, as provided in section 11 of the MLPC Act, to a full declaration system, through amendment of the MLPC Act.
8. Availability and access to beneficial ownership information. Zimbabwe needs to enhance law enforcement agencies' access to beneficial ownership information.
9. Effectiveness of tax enforcement.
10. Quality of FIU intelligence gathering and processing. The FIU needs to be appropriately staffed in terms of skills and head count to enable it to effectively discharge its mandate.

11. Quality of Border Controls. Zimbabwe needs to address the challenge of porous borders with a view to curb smuggling.
12. Increase levels of Financial Integrity.

In terms of sectors, Zimbabwe will prioritize the monitoring and supervision of the following sectors, in order of importance, to mitigate against the risk of money laundering;

1. Mobile Financial Services Providers,
2. Accountants,
3. Dealers in Precious Stones and Metals,
4. Banking,
5. MVTs,
6. Lawyers,
7. Real Estate,
8. Car Dealers,
9. Insurance, and
10. Securities.

CHAPTER 4

BANKING SECTOR VULNERABILITY

KEY FINDINGS FOR THE BANKING SECTOR

Overall vulnerability.

The overall vulnerability of the Banking sector, which is based on the strength and effectiveness of laws and regulations in place and the aggregate risk profiles of products was rated **Medium**, with a score of **0.53**. It is worth noting, that this is an improvement in the sector's vulnerability rating of 0.59, logged in the last NRA of 2015.

The Table 4.1 below shows vulnerability for the sector.

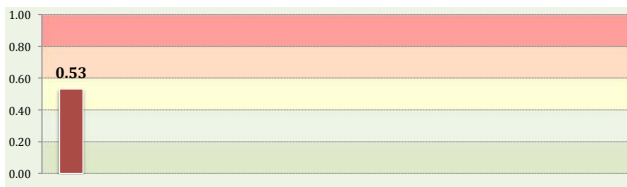


Figure 4. 1 Overall Banking Sector Vulnerability.

The Banking Sector is generally considered vulnerable to money laundering due to; its size and importance, its relative large number of clients, legitimacy of the domestic and international transactions which pass through the Sector. Consequently, the vulnerability of the sector to money laundering risks arises from products and services offered by the sector as well as other general indirect factors such as regulations, supervision, bank staff integrity, enforcement actions, identification infrastructure and compliance function among others.

On the assessment of the general input variables, the banking sector scored relatively well, featuring several strong factors, such as a comprehensive legal framework including strong entry controls and application of ML risk-based supervision. There are, however, some areas of improvement, particularly in the detection of suspicious transactions, effectiveness of the compliance functions, and availability and enforcement of administrative and criminal sanctions. Notably, both local and foreign banks demonstrated measurable efforts in implementing AML/CFT requirements by addressing AML/CFT deficiencies that were noted in the first NRA of 2015.

The Quality of General AML Controls

The Quality of General AML Controls assessment was **rated 0.70 (Medium High)** which included the 12 banking products. The supervisory authorities have adopted a risk-based approach to supervise for AML/CFT; however, they were still to apply sanctions for the violation of AML/CFT requirements. Furthermore, the banking institutions are required to establish the true identity of ultimate beneficial owners when establishing a business relationship or carrying out an occasional transaction.

Product Vulnerability.

Amongst the thirteen products that were analysed for vulnerability, the assessment identified the following four products **corporate banking, (0.56), retail banking, (0.51), trade finance (0.50) and private banking (0.48) as high risk products** in the banking sector.

SECTOR BACKGROUND AND ASSESSMENT METHODOLOGY

Since the last NRA, the banking sector has been seized with putting in place controls to reduce the risk of their institutions being used for money laundering. The measures implemented since 2015 include;

- acquisition of automated transaction monitoring and screening systems for sanctioned individuals as well as

systems to identify suspicious transactions,

- investing in compliance systems through increasing compliance staff members,
- rolling out intensive training programs, to ensure AML/CFT issues are understood.

At national level, gaps in the legal framework for AML/CFT were identified and the Money Laundering and Proceeds of Crime Act [Chapter 9:24], was amended to enhance the AML/CFT legislation in line with the FATF requirements. Another development in the banking sector is the requirement for financial institutions to carry out institutional ML/FT Risk Assessments of their businesses and applying the Risk Based Approach in the implementation of AML/CFT programs. This requirement allowed institutions to identify and understand their ML/TF risks and put in place mitigation measures to control the risks. Implementation of the Risk Based Approach has informed most banks in amending their policies and procedures to incorporate the new requirements, though they are at different stages.

The banking sector contributes approximately 58 percent to the National Gross Domestic Product (GDP). Therefore, the Zimbabwean banking sector plays a pivotal role in the financial system as most transactions in the country are processed through banks. In view of that, it was necessary to evaluate the sector, in order to identify its vulnerability to money laundering and identify mitigatory measures to control the risk.

Banks in Zimbabwe are governed by the Banking Act [Chap 24:20]. The Banking Supervision Division (BSD) of the Reserve Bank of Zimbabwe (RBZ) regulates and supervises banks to promote and ensure the soundness of banking institutions. Banks, like other reporting institutions, are also required to adhere to the MLPC Act [Chap 9:24]. The FIU is responsible for AML/CFT supervision.

The banking sector experienced turbulent phases from 2008 when the economy was faced with hyperinflation, which resulted in the introduction of the multi-currency regime in 2009. From 2009 to 2016 the country adopted the multicurrency system involving use of a basket of currencies to effect transactions as a way of stabilizing the economy. However, the United States Dollar became the dominant currency and was used as the base currency. In 2016, the economy was faced with a critical shortage of cash largely the United States Dollars, which was the base currency. In a bid to ease the situation the Reserve Bank of Zimbabwe introduced the Bond Note, which was an incentive for exporters valued at a rate of 1:1 with the USD. Notably, the Bond Note was disbursed to exporters through the banking sector based export receipts. This provided a relief to the banking public in carrying out transactions.

The Reserve Bank of Zimbabwe increased its efforts in promoting the use of electronic means of payments which includes mobile money, card payments and internet banking to ease pressure on the demand for cash. The efforts culminated in the country witnessing a major leap in the use of electronic means of payment which registered over 90% of formal transactions. From February 2019 the foreign exchange rate was introduced between the local currency RTGS\$ and other currencies, though the USD is the main trading currency on the inter-bank market. The interbank market exchange rate between the USD and RTGS\$ started at USD1: RTGS\$2.5 in March 2019. However, the rate has continued to deteriorate and measures are being taken to stabilize the interbank rate, including introduction of a \$500 million line of credit.

Government, through the Statutory Instrument 142 of 2019, removed the use of multicurrency in the economy and upheld the use of the local currency (RTGS\$) introduced in October 2018. A raft of exchange control measures was introduced to operationalize the Statutory Instrument 142 with an overriding objective to liberalize the foreign exchange market.

The banking sector has also been facing operational challenges emanating from internal constraints as well as the unfavorable operating environment, which resulted in severe liquidity shortages and a sharp increase in non-performing loans. In this regard, the 2nd National Risk Assessment (NRA) is an important epoch for Zimbabwe as it will enable identification of vulnerabilities in the banking sector.

There were 19 operating banking institutions as at 31 December 2018, as shown in the table below.

Table 4. 1: Architecture of the Banking Sector.

Type of Institution	Number
Commercial Banks	13
Building Societies	5
Savings Bank	1
Total Banking Institutions	19

The banking sector assessment focussed on commercial banks, building societies and one savings bank. As at 31 December 2018, the banking sector in Zimbabwe consisted of nineteen (19) banks; six are foreign owned and the remaining 13 are locally owned. Banks are largely operating as universal banks as they can conduct all banking activities with the consent of the Reserve Bank of Zimbabwe.

As at 31 December 2018 total assets, total liabilities and the aggregate capital base stood at USD 13.98 billion, USD 4.22 million and USD 10.32 billion, respectively. Total earnings for the banking sector amounted to USD 390 million for the year ended 31 December 2018. The total asset base accounted for 58% of the Gross Domestic Product (GDP) of the country's USD 24 billion.

Banks undertake traditional banking activities, namely deposit taking

and lending as well as other related activities such as foreign exchange business, custodial services and money market investments. Fourteen (14) out of the nineteen (19) operating banks participated in the banking sector assessment by providing information and responding to the questionnaire that was distributed to them.

Over the years, the banking sector implemented a number of measures to detect and control money laundering as a way of curtailing abuse of their institutions. In 2018, the FIU issued a directive to banks to carry out ML/TF risk assessments of their businesses and put in place appropriate control measures to manage the risk and then apply the Risk Based Approach in implementing their AML/CFT compliance programs. During the period under review, banks were at different levels of assessing ML/TF risks. The risk assessment process allows banks to identify, assess and understand the ML/TF risks that affects their operations and enables relevant controls to be put in place to manage the risks.

The banking sector's vulnerability to money laundering used two (2) major variables as discussed below;

(i) Input variables; which consist of

- **AML control Variables-** which in turn consist of,
 - **General AML Controls-** which are ML protections applicable to the entire sector and are therefore assessed at sectoral level.
 - **Product Specific Controls-** which apply and affect each product, specifically, and have an effect only at product level.
- **Inherent vulnerability variables-** which refer to the vulnerability features of a particular product.

(ii) Intermediate variables were also considered. These were embedded in the tool and automatically contribute to the overall ratings obtained.

In this regard, the assessment focused on collecting and populating data and giving an opinion on the input variables.

The banking sector had twelve (12) banking products and 5 payments mechanisms that were identified. The Table below indicates the 12 banking products as;

Table 4. 2 Banking Products and Services Assessed.

Number	Product
1	Private Banking
2	Retail Baking
3	Corporate Banking
4	Trust Accounts
5	KYC lite Products
6	Asset management
7	Retail & Personal Loans
8	Retail Mortgage loans
9	SME loans
10	Corporate Loans
11	Money Market investments
12	Trade Finance

The transactional activities were facilitated through the five (5) payment systems mechanisms indicated below;

- a) Card,
- b) RTGS,
- c) mobile money,
- d) online, and
- e) cash -both bond notes and foreign currency in the basket of currencies.

By assessing the 3 major variables, it was possible to establish the strength of the AML laws and regulations that are in place and also establish which products have high risk of being used to launder funds. The information was also used to come up with recommendations that could be implemented to combat money laundering.

The information used to assess the vulnerability of the banking sector to money laundering was for the period, January 2014 to December 2018, and a number of methods were used to gather information, which included a panel of experts from different sectors of the economy, questionnaire and literature review.

DETAILED FINDINGS

General AML controls

Quality of AML General Controls - rating of **0.7**, which indicated **Medium High** risk of money laundering. Quality of General AML Controls was assessed using thirteen (13) variables, with each having a different rating in terms of its exposure to money laundering.

The overall rating was then calculated using formulae embedded in the tool. The calculations also consider the priority of each variable in terms of its importance in the fight against money laundering. The highest priority was given to availability and access to beneficial ownership information, availability and enforcement of administrative sanctions

and finding ways of dealing with market pressure.

Tabulated below are the 13 variables that were analyzed and the relevant ratings that were assigned.

Figure 4. 2 General input variables

A. GENERAL INPUT VARIABLES		
Comprehensiveness of AML Legal Framework	(0.9) Close to Excellent	0.9
Availability and Enforcement of Criminal Sanctions	(0.7) High	0.7
Level of Market Pressure to Meet AML Standards	(0.6) Medium High	0.6
Availability and Effectiveness of Entry Controls	(0.7) High	0.7
Effectiveness of Supervision Procedures and Practices	(0.8) Very High	0.8
Availability and Enforcement of Administrative Sanctions	(0.6) Medium High	0.6
Integrity of Banks' Staff	(0.7) High	0.7
AML Knowledge of Banks' Staff	(0.7) High	0.7
Effectiveness of Compliance Systems	(0.8) Very High	0.8
Effectiveness of Suspicious Activity Monitoring and Reporting	(0.8) Very High	0.8
Availability and Access to Beneficial Ownership Information	(0.5) Medium	0.5
Availability of Reliable Identification Infrastructure	(0.9) Close to Excellent	0.9
Availability of Independent Information Sources	(0.9) Close to Excellent	0.9

KEY

Rating out of 1	Narrative
(1.0) Excellent	Excellent
(0.9) Close to Excellent	Close to Excellent
(0.8) High	Very High
(0.7) High	High

(0.6) Medium High	Medium High
(0.5) Medium	Medium
(0.4) Medium Low	Medium Low
(0.3) Low	Low
(0.2) Low	Very Low
(0.1) Close to Nothing	Close to Nothing
(0.0) Doesn't Exist	Doesn't Exist

Comprehensiveness of AML Legal Framework. - 0.9

To fight against ML/FT, a country needs comprehensive laws and regulations regarding ML/FT preventive measures and AML/CFT supervision of the banking sector. Zimbabwe has robust a AML legal framework, which was assessed and found to be well aligned with international requirements. Banks operating in Zimbabwe are required to put in place robust controls to detect and deter the flow of illicit funds through its financial system.

The Money Laundering and Proceeds of Crime Act [Chapter 9:24] designates banking institutions as reporting entities which must implement anti-money laundering requirements. The Act comprehensively covers anti-money laundering and counter terrorist financing requirements.

Effectiveness of Supervision Procedures and Practices was rated 0.7 in the Banking sector.

Zimbabwe has a comprehensive supervision regime regarding the prevention of money laundering and terrorist financing that is supported by appropriate powers, personnel and other resources available to the supervisory authority.

The FIU, Exchange Control, National Payments Systems and Bank

Supervision are all supervisory authorities who are mandated to ensure compliance in the banking sector. Through supervisors' engagements and collaboration, banking institutions have continuously improved their systems to ensure that criminals do not process dirty money using their banking system.

Since the last NRA in 2015, the MLPC Act has since been amended to incorporate the need for conducting risk based supervision and designated institutions to apply the same in their compliance systems. Training in this regard was conducted; risk assessments were submitted to the AML/CFT Supervisor, the FIU.

1. In order to ensure banks are not continuously hosting supervisors, supervisors are expected to carry out joint inspections, applying the enterprise-wide supervision approach, in cases where more than one (1) supervisor is the main supervisor, whose activities are under the purview of different supervisors.

In light of the shortcomings of the AML/CFT supervisory framework in effectively implementing the risk-based approach, the following recommendations need to be undertaken:

- There is need for capacity building of Reserve Bank supervisors and FIU examiners. More specifically examiners require enhanced understanding of the risk based supervision (RBS) approach, which allows supervisors to focus resources on high risk areas.
- Whilst, the number of examiners undertaking AML risk examination has increased steadily in the past few years, more human resources are still required to effectively monitor the sector.

Notwithstanding the above, the quality of supervisory staff has contributed significantly to ensuring a high level of banks' compliance to AML/CFT laws and regulations and the control of money laundering and terrorist financing in the country.

Availability and Enforcement of Administrative Sanctions- *The variable was rated 0.6*

The MLPC Act has provisions for the need to apply administrative sanctions for noncompliance. The Unit has put in place a framework for applying administrative sanctions.

In addition, the FIU has taken a stance where it allowed institutions to grow through their guidance to a level where they are allowed to put in place AML/CFT systems before they can be fined. Directives and training have been issued to the sector where breaches have been sighted. Although the provision for imposing sanctions exists, no administrative sanctions have been levied against any staff or entity for breach of AML laws or regulations. Going forward Supervisors shall be imposing penalties for non-compliance in order to compel institutions to adhere to AML requirements.

Availability and Effectiveness of Entry Controls- *the variable was rated 0.7.*

The Banking Act has provisions for Bank Supervision to ensure players in the sector are fit and proper. Fit and proper evaluations are conducted on all shareholders and management of the institutions. This is done with the assistance of a number of domestic and international regulatory agencies. The RBZ, (National Payments Systems, Exchange Control and Bank Supervision) is the responsible authority for licensing banking services in the country. The RBZ has trained staff who are skilled and competent to review applications, which includes analysing financial statements, business models; organizational structure; fit and proper status of the shareholders and management; risk management policies and procedures, AML/CFT policies, and internal controls. The MPLC Act requires supervisors to ensure criminals are not allowed to be employed in the financial sector. Failure to easily access information on beneficial ownership of legal persons has left a gap in the identification of all players in the sector.

Availability and Enforcement of Criminal Sanctions- *the variable was rated 0.7.*

Bank staffs are generally aware of the consequences of non-compliance with the AML/CFT regime, internal rules and procedures, as well as any related requirements. The MPLC Act has provision for the application of Criminal Sanctions. An employee of a bank was charged with money laundering when she defrauded the bank of USD 30 000.00. While two (2) more bank staff members were charged with similar crime during the period under review. About 23 bank staff employees have cases in the courts, mainly to do with dishonesty in record keeping, that lead to financial institution losing money.

Integrity of Banks' Staff- *This variable was rated 0.7*

The integrity of a bank staff is evaluated in cases as to whether staff acts in a wilfully blind manner or colludes with criminals or acts corruptly. The evidence taken from some reports on fraud and other economic crime disclosed by banks to FIU, shows that only fewer cases were officially reported against bank staff from 2014 to date.

Generally, management and staff of banks in Zimbabwe are aware of the legal liability of non-compliance or breaches of the AML/CFT regime. However, it is also worth noting that there are numerous unreported cases involving breaches of conduct by bank staff. Such cases are either unreported or settled internally as banks may be concerned with the reputational, regulatory and legal risks associated with reporting incidents involving an AML breach. As such, banks prefer to take disciplinary action against their staff. This may include and is not limited to demoting staff, terminating staff with notice, and the acceptance of the staff's resignation.

All Staff members that are employed in the banking sector are vetted for any adverse records. Continuous training of bank staff is required for them to be aware of the consequences of failing to adhere to AML requirements.

AML Knowledge of Banks' Staff. *This variable was rated 0.7*

It was observed that all banks have a formal AML training program in place. In some banks AML training focused more on compliance function and not on other support functions such as lending, operations, finance. To aid staff knowledge in banks, the FIU/RBZ, over the years, have conducted sensitization/training programs for all bank's compliance officers who are expected to train staff in their institutions.

Following the severe impact of de-risking from 2011-2017, banks enhanced their AML/CFT measures and staff members are now aware of the AML policies and procedures.

The following observations, relating to the AML knowledge of bank's staff variable, were noted relating to the AML knowledge of bank's staff variable:

- Limited refresher trainings in place, resulting in staff becoming complacent with the procedures;
- Not all banking staff, irrespective of their roles, have undergone the AML training in some few banks.

However, it is recommended that training should cover other key departments so that all staff members, including the board are aware of AML/CFT requirements.

Effectiveness of Compliance Systems (Organization) - *The variable was rated 0.7*

The MLPC Act requires all banks to have in place approved AML/CFT policies and internal rules and also to appoint AMLROs reporting to the Board. The Board should have oversight to ensure overall compliance and effectiveness.

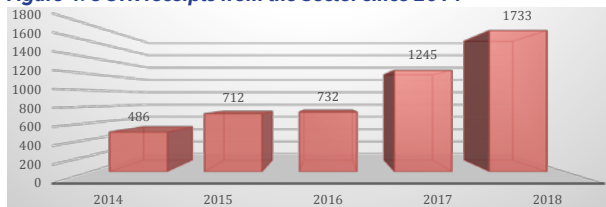
All banks have a compliance function which is effectively implementing AML/CFT measures. However, it was observed at, three (3) banks, that the Compliance Officer had no direct access to report to the Board

as required. Bank supervision issued a Directive requesting banks to appoint a competent compliance officer at a senior level. There is need to continuously capacitate compliance functions in banks, with more human resources and compliance systems in order to effectively implement AML/CFT requirements.

Effectiveness of Suspicious Activity Monitoring and Reporting- The variable was rated 0.7

Most banks have automated STR monitoring systems for the identification and monitoring of suspicious transactions. The FIU has also acquired the Go-Aml System where banks report STRs online. The system is secure and it allows detailed analysis of STRs. Since the implementation of AML/CFT requirements in 2004, banks have been reporting STRs to the FIU. There has been a steady increase in STR receipts over the years as shown in the table below;

Figure 4. 3 STR receipts from the Sector since 2014



Most banks in Zimbabwe have information systems in place that enable and facilitate the identification and reporting of suspicious transactions. The systems also allow the monitoring of transactions of customers against their profiles. It was observed that, transactional records are available, however, for some banks there is a lack of consistency in the quality of supporting documents provided to support AML related transactions.

There are varying degrees of consistency across the banking sector in

performing PEP screenings, as some banks have effective system whilst others are still drawing up PEP monitoring frameworks. Additionally, there is room for improvement in enhancing staff knowledge to effectively use the system for PEP screening. Nonetheless, the systems in place, allow banks to identify and record complex and unusual large transactions.

Level of Market Pressure to Meet AML Standards- A rating of 0.7 was assigned to this variable.

Banks process their international transactions through correspondent banks, whom they would have established a trust relationship. Correspondent banks require responsive banks to put in place AML/CFT controls. Most banks in Zimbabwe are facing pressure from their correspondent banks to ensure they are in adherence to international AML/CFT standards. This is against the emerging trends of correspondent banks de-risking.

During the period under review, Zimbabwean banks lost most of their correspondent banking relationships, leaving them failing to settle international transactions. Office of Foreign Assets Control (OFAC)'s requirements on United States of America nationals who bank with foreign banks, have also put pressure on banks to comply since there are penalties involved for non-compliance. Three (3) banks have been penalized by OFAC for non-compliance with AML requirements. In this regard, it has been observed that banks have responded to international and national reputational risks by enhancing their AML/CFT related controls.

Availability and Access to Beneficial Ownership Information- this variable was rated 0.5

Zimbabwe has no legal requirement for companies and trusts to collect and provide ultimate beneficial ownership information in line with FATF requirements. Banks have relied on the customers to declare and provide information on the beneficiaries. The source of information

is not reliable and difficult to verify. In order to address the issue of UBOs, the Companies Act is currently being amended to address the need to have a central data base for UBO information. However, more than 70% of companies in Zimbabwe are owned by individuals, who are the beneficial owners. Furthermore, most banks have subscribed to automated systems such as World Check to access information on beneficial ownership for multinational companies.

Availability of Reliable Identification Infrastructure - *The variable was rated 0.9*

Zimbabwe has a robust identification system, which is managed by the Registrar General. Banks rely on identification documents issued by the Registrar General, which include;

- Birth and Death Certificate,
- National Identity document, and
- Zimbabwean Passport.

A few cases of forged identification documents were, however, identified during the period under review. Banks are requesting access to the Registrar General's identification database through internet viewing rights. The Registrar of Companies and Registrar of Trusts have infrastructures that provide identification information for legal persons and arrangements.

Availability of Independent Information Sources- *The variable was rated 0.8*

Zimbabwe has a number of independent sources where customer information can be accessed. These include;

- Credit registry, which gives the borrowing status of customers,
- Financial Clearing Bureau, which is an independent source of information on the financial standing of banking individuals, and

- For borrowing customers, information on property ownership is provided by the Deeds office and the Vehicle Registration Department.

Using information from Government publications, newspapers and public engagements banks are drawing up local PEPs lists, in line with the provisions of the MLPC Act. Most banks are subscribed to the World Check system for accessing information on Foreign PEPs and sanctioned individuals on the various sanctions lists, who must be identified before being allowed to transact with banking institutions.

Inherent vulnerability variables (products).

This section assesses the inherent factors that are specific to products. Certain products are inherently more vulnerable to money laundering than others. The vulnerability may arise from characteristics of the product, such as: its usage by anonymous persons or entities, non-face-to-face interactions, frequent use of cash – or the characteristics of the clients – such as politically exposed persons (PEPs) or high-net worth individuals who are likely to make use of the product. The vulnerability of a product will also depend on the availability of any additional AML controls that are specific to a particular product.

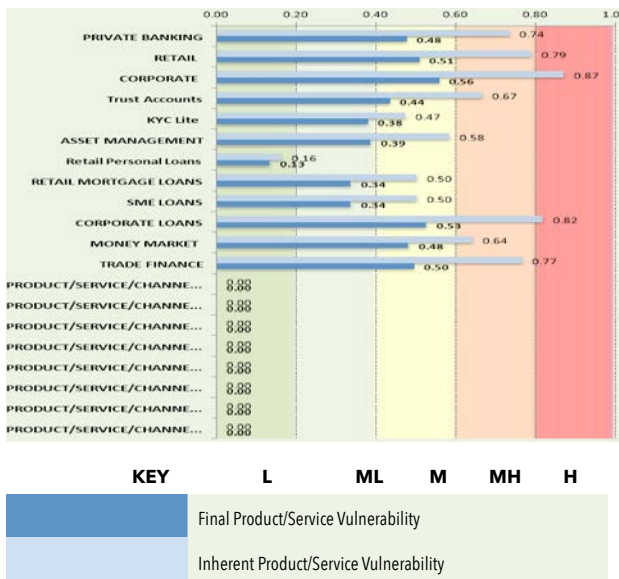
Seven inherent vulnerability input variables were assessed for the 12 different products in the banking sector, in order to determine the vulnerability of each individual product. The following input variables were assessed for each product:

1. Total size/value of the product,
2. Average transaction size of the product,
3. Client base profile of the product,
4. Existence of investment/deposit feature for the product,
5. Level of cash activity associated with the product,
6. Frequency of international transactions involving the product, and

7. Other vulnerable factors of the product.

Figure 4.4 shows the products that were assessed and their correspondent ratings.

Figure 4. 4 Product vulnerability ratings.



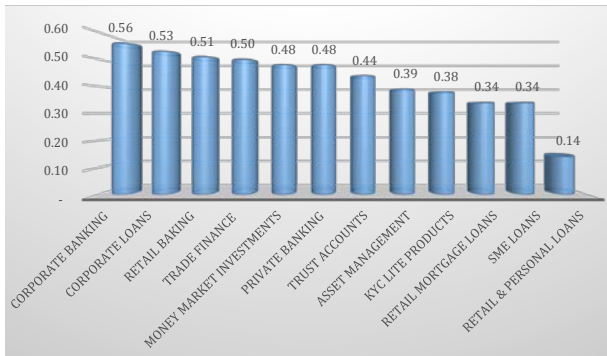
Product Vulnerability Findings

The assessment noted corporate banking and corporate loans as highly vulnerable to ML risk in the absence of controls. Retail banking, private banking and trade finance were ranked medium high. These products either allow use of cash which, allows anonymity and is difficult to

establish. However, it was noted that banks apply AML/CFT controls relative to the risk inherent in each of the products as part of their general AML/CFT measures.

The Table below shows ratings for residual/final vulnerability for each product.

Figure 4. 5 Rating of Banking Products Vulnerability



Retail and personal loans were ranked as the least vulnerable products, due to the source of funds which is mostly salary backed and mainly accessed by government employees and other salaried individuals.

Corporate Accounts- ratings of 0.56 and 0.53 which is a medium

Corporate banking and corporate loans are the most vulnerable products in the banking sector. Corporate accounts allow cross border movement of funds through their activities such as international trade i.e. exports and imports. The vulnerability emanates from under invoicing of exports and over invoicing of imports. Companies with corporate accounts are usually owned by high net-worth individuals and in some cases PEPs who exert pressure on financial institution to

process transactions with inadequate documentation.

During the period under review suspicious transactions reported by banks alleged that some transactions that were going through company accounts were related to parallel market activities. Information on such accounts was reported to law enforcement agencies for investigation for illegal foreign currency dealing and possible tax evasion.

Also, a number of companies were not acquitting CDI Forms for exports made, as required by the Reserve Bank of Zimbabwe. Cases of externalization of export receipts were recorded and through the President of Zimbabwe's Office exporters were given time to settle their dues and return all externalized funds.

Banks have put in place enhanced KYC/CDD requirements for on boarding corporates in order to ensure they are not among those with outstanding obligations and their owners and beneficiaries are not listed on the UN Sanctions and OFAC lists.

Retail Banking - rated 0.51

Retail banking was also cited as having medium-high inherent vulnerability. This is because retail accounts are used in the process of splitting dirty money into small amounts and depositing them into numerous accounts. In Zimbabwe, individuals are allowed to have one account which can be used for savings, meeting regular transactions and making international transactions.

Retail accounts were recorded as having the highest volumes and values in terms of transactions. Also cash can be easily deposited into the account with most of the deposits coming from individuals in the informal sector. Zimbabwe highly depends on imports, from food, clothing and motor vehicles and it was noted that most payments for such services were done using retail accounts. These factors leave the product being highly vulnerable to money laundering.

AML controls in place reduce the risk and banks continue monitoring

such accounts in order to identify and report any suspicious transactions. Monitoring of such accounts is central to ensure they are not used for money laundering.

Trade Finance - rated 0.5

In the same vein, Trade finance accounts were noted to be exhibiting medium vulnerability.

Corporates in the trade business operate trade finance accounts for meeting internal obligations. Trade finance accounts allows cash deposits and the accounts are used to facilitate international payments. Although the volumes are low, high values are processed through these accounts. A number of Chinese companies were noted to be involved in making large payments to companies in China, with cheap goods being imported back into the country. Allegations are Chinese companies use their trade finance accounts to facilitate repatriation of business proceeds from Zimbabwe.

This product therefore, is vulnerable to trade based money laundering through transfer pricing.

Private Banking

Private Banking was rated Medium with a score of 0.48. The product is used by high net worth individuals and is given a focus by banking institutions. These individuals process high value transactions which have detrimental effects on a banking institution if they are not monitored. Clients in this category are classified as high risk and regular monitoring of the transactions is carried out by the relationship manager. High volumes of transactions were recorded for this product, and the average transaction size was moderate. Directors and owners of companies have private banking accounts. Analysis of Suspicious transaction receipts noted that directors of companies were using their personal account to facilitate business transactions. This resulted in companies evading payment of taxes, which must be deducted from their company accounts.

Asset Management Accounts

A rating of **Medium-Low** with a score of **0.39** was assigned to this product. The product is commonly used by corporate clients. Clients are categorized on risk basis; enhanced due diligence is applied on customers who use this product and the relationships are managed on an ongoing basis; annual AML reviews are carried out on such accounts and sign offs are done by senior management. Volume of transactions was rated low.

Trust Accounts- These were rated medium with a rating of 0.44.

Mainly used by personal and small businesses. Usually used for the layering process of money laundering. The volume of transaction is moderate and the value per transaction is low.

AML Controls for Products

The MLPC Act requires banks to assess ML/TF risk in products, customers, delivery channels and geographical presence and to put in place mitigation measure to manage the risk. In line with the requirement, banks assessed the risk of money laundering in their products and managed to put in place controls to reduce the risk.

The controls are based on the level of risk assigned to each product. For high risk products, enhanced CDD controls are applied; and for low risk products such as KYC Lite products, simplified control measures are applied. Some of the measures that were put in place are discussed below.

- (i) **Enhanced due diligence (EDD)** measures that are applied in the banking sector for products that were found to be highly vulnerable to money laundering i.e. corporate banking, trade finance, private banking includes:
 - a) Obtaining and verifying additional information on the customer such as occupation, volume of assets, and

updating more regularly the identification data of customer and beneficial owner.

- b) Obtaining and verifying additional information on the intended nature of the business relationship.
- c) Obtaining and verifying information on the source of funds or source of wealth of the customer.
- d) Obtaining and verifying information on the reasons for intended or performed transactions.
- e) Obtaining and verifying the approval of senior management to commence or continue the business relationship.
- f) Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

(ii) Simplified CDD measures. Where the risks of money laundering or terrorist financing are lower, the FIs are allowed to conduct simplified CDD measures, which take into account the nature of the lower risk. The simplified measures should be commensurate with the lower risk factors. In Zimbabwe, banks have KYC-Lite products which must be accessed by low risk customers such as students, civil servants and pensioners. KYC Lite products were rated as **0.38**. Other low risk products in the sector include Retail and Personal Loans, which had the least vulnerability rating of **0.14**. Examples of AML control measures that are applied in low risk products include:

- a) Limiting the number of identity documents.
- b) Reducing the frequency of customer identification updates.

- c) Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold.
- d) Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.

PAYMENT SYSTEM MECHANISMS AND INSTRUMENTS

The banking sector moved from using cash as the major mode of payment to largely wire transfers. Transactions in the banking sector are settled using a number of payment systems platforms, and transactions levels since 2014 were as shown in the table below;

Table 4. 3 Payment Systems and Instruments values in (USD Billions) from 2014-18

PAYMENT STREAMS	2014	2015	2016	2017	2018
RTGS	43.83	44.87	48.11	61.72	85.35
Cash		27.69	7.48	3.65	3.12
SWIFT FX PAYMENTS. (Wire Transfers)	6.44	5.46	4.61	4.08	3.82
SWIFT FX RECEIPTS. (Wire Transfers).	6.29	5.27	4.57	3.66	3.92
CHEQUE	0.13	0.14	0.11	0.07	0.05
POS	1.53	1.72	2.90	6.64	8.99

ATMS	3.19	3.85	2.28	0.43	0.17
MOBILE	3.63	4.65	5.82	18.02	44.14
INTERNET	1.22	1.61	2.50	7.02	13.10
TOTAL VALUE	66.27	95.27	78.38	105.28	162.65

Mobile money and Real Time Gross Settlement System (RTGS) transactions are among the most used payment systems in the country. An assessment of the payments system revealed that use of cash is most vulnerable to money laundering due to failure by banks to easily establish the source of funds. Customers only declare the source of their cash but banks fail to verify the declared source of funds. Cash is generated from various source including illegal activities such as illegal foreign currency dealing and illegal mineral trading.

The table below shows the vulnerability ranking of the payments systems used in Zimbabwe.

Table 4. 4 Vulnerability Ranking of the Payment Systems.

Type of Payment System	Ranking	Vulnerability
Cash	1	<ul style="list-style-type: none"> • Lack of traceability • Motivates illegal activities .e.g. forex buying due to lack of audit trail.
International Wire Transfers	2	<ul style="list-style-type: none"> • Cross border payments
Mobile	3	<ul style="list-style-type: none"> • Remittances
Internet	4	<ul style="list-style-type: none"> • Cyber security risk,

RTGS	5	<ul style="list-style-type: none"> • Transactions originate from existing accounts
ATM, POS, Cheque	6	<ul style="list-style-type: none"> • Banked customers

Wire transfers pose high risk of money laundering due to its ability to facilitate cross border transactions. Verification of source of funds and utilization of the same is difficult to undertake. During the period under review, a number of measures were put in place to limit the amount of money that was transferred out of the country. Banks were required to make essential payments as per the Reserve Bank priority list, since Exchange Control had noted cases of externalization of foreign currency through the use of this delivery channel.

Mobile money transfers recorded a sharp increase from 2017 to 2018 due to the Central Bank policy to promote the use of non-cash payment systems. Due to its financial inclusion properties such as convenience, speed and accessibility, almost all citizens moved to mobile money transfers for making payments. Both volume and values were high and money launderers can easily channel their laundered proceeds into the financial market.

In this regard, providers of mobile money services are required to monitor their transactions and report suspicious transactions. During the period 2014 to 2019, eighty-five (85) STRs were reported by Mobile Money services providers. Most of the STRs involved fraud and illegal foreign currency dealing.

The RTGS system recorded the highest values but its vulnerability to money laundering was low since the system is used by customers with bank accounts, who would have provided their KYC/CDD documents.

Point of Sale, Automated Teller machines and Cheque are regarded as the least vulnerable payment systems since they are all linked to bank accounts. Though the country experienced sub optimal cash supply in the economy, the availability of the digital infrastructure platforms

provided a leap frog of the transactional activities both in terms of volumes and values.

In order to ensure the payment systems are not abused for money laundering, all banks are in the process of putting in place both manual and automated transactions monitoring systems for identifying suspicious transactions.

The Central Bank through the National Payment Systems has deployed technological solutions for AML/CFT surveillance and monitoring, that are real time and on line through the oversight Unit. The FIU has access rights to the national payment system.

RECOMMENDATIONS AND CONCLUSIONS FOR THE BANKING SECTOR

The banking sector's vulnerability rating of medium (0.53) means that the Banking sector has made strides in putting in place measures that combat money laundering in the sector, since the last NRA in 2015. Staff members in the sector were found to be lacking knowledge on terrorist financing and the need to report STRs. More training and awareness programs should be rolled out in all banks as a way of improving staff knowledge.

The NRA also revealed that some indigenous banks do not have robust automated transaction monitoring systems which flag out unusual transactions. This is an essential element in the fight against money laundering and all banks should acquire such IT systems. During consultations with MLRO of banks, a number of recommendations were given which should be implemented in trying to reduce the sector's ML/TF vulnerability levels. The NRA exercise revealed that there was a deficiency in many institutions' Management Information Systems (MIS) such that pertinent information was not being captured or stored on an ongoing basis. For example, e-card cloning or fraudulent activities due to adoption of electronic means of payments were not well documented. There is lack of commitment to ML/TF issues and the

importance of the NRA for the country by some stakeholders.

- a) In terms of priority ranking, the Regulators need to put more effort in levying penalties on banking institutions that fail to comply with money laundering requirements and expedite the amendment of the Companies Act in order to allow companies to collect and provide UBO information.
- b) Coming up with ways of dealing with market pressures was cited as a priority which needs to be addressed. (See table 4.5)
- c) Continuous training of staff should be prioritized by the banking sector as new risks associated with money laundering are emerging.
- d) There is also need to enhance availability of beneficial ownership information at on boarding of customers by banking institutions.
- e) The quality of AML/ CFT supervision should be enhanced through AML/CFT training and resourcing supervisors.
- f) Accurate risk categorisation of accounts must be done, so that banks can focus on monitoring high risk customers. This will result in the application of Enhanced and Ongoing Customer Due Diligence, consistent with the client risk profile.
- g) Enhance information that banks provide to regulators for off-site reviews. This will assist the supervisor to risk profile banks and implement risk-based AML/CFT supervision.
- h) Continue building technical capacity of staff especially in the area of evaluating AML/CFT risk when evaluating bank license applications.
- i) Introduce requirements for all bank staff to undergo minimum training with regards to AML/CFT.

- j) Regulators to require that banks take actions against staff in breach of AML requirement.
- k) Banks to further enhance their monitoring systems and ensure they are risk based in nature.
- l) Adopt regulatory technology to enhance efficient and accurate supervision and monitoring
- m) Banks and regulators to work on coming up with a comprehensive PEP list for use by institutions.
- n) There is need to apply the concept of "Tone from the top", which implies that every institution should have buy-in from top management on the need to apply AML/CFT measures. This will help in ensuring that all AML/CFT policies and procedures are applied with the support of senior management. They must own the program and its products.
- o) The sector also felt that the FIU should increase its regulation and supervision of mobile money transfer agencies, since customers were shunning the banking sector due to stringent KYC requirements and are now dealing with mobile transfer agencies that are not strict in applying KYC requirements. FIU should issue risk based AML/CFT Guidelines for mobile money transfers.
- p) Some banks felt that there was no level playing field on the application of KYC requirements for all customers, since others were being lenient and tended to attract more customers, which presented unfair business practice. In this regard, a level playing field is required to ensure that no bank benefits from a flawed system. Banks also require access to identification information which is controlled by the Registrar General.

Table 4. 5 Priority Ranking of the Banking Sector

PRIORITY RANKING - LAST CASE/SCENARIO		PRIORITY RANKING**
Comprehensiveness of AML Legal Framework		
Availability and Enforcement of Criminal Sanctions		
Level of Market Pressure to Meet AML Standards		2
Availability and Effectiveness of Entry Controls		
Effectiveness of Supervision Procedures and Practices		
Availability and Enforcement of Administrative Sanctions		1
Integrity of Banks' Staff		
AML Knowledge of Banks' Staff		
Effectiveness of Compliance Systems		
Effectiveness of Suspicious Activity Monitoring and Reporting		
Availability and Access to Beneficial Ownership Information		3
Availability of Reliable Identification Infrastructure		
Availability of Independent Information Sources		

NB: The deeper red the color, the higher priority the item has in terms of respective ranking

In conclusion, the Zimbabwean banking sector has been aware of the AML/CFT requirements since 2004, and has taken measures to comply with the prevailing regulations. This has resulted in the risk of money laundering reducing from the previous rating of **0.59 to 0.53**. The sector should continue putting in place new measures to curb money laundering.

CHAPTER 5

SECURITIES SECTOR VULNERABILITY

KEY FINDINGS FOR THE SECURITIES SECTOR

Despite of all developments that happened in the Securities Sector, since the 1st NRA of 2015, the Vulnerability of the sector, based on the results of the analysis, deteriorated from low **(0.29)** to medium low **(0.33)**. This was primarily attributed to the change in the rating scale from a 3-tier to a 5-tier rating scale. Essentially, the Vulnerability for the Securities sector remained low. There are, however, some factors that were considered to have contributed to a change in the vulnerability score and these are;

- The 2015 securities sector vulnerability analysis was product based while the 2019 was based on the institution type,
- More variables were considered in the 2019 assessment as compared to the 2015 assessment. The 2015 analysis was mainly based on technical compliance which focuses on the implementation of specific requirements of the FATF Recommendations, including the framework of laws and enforceable means; and the existence, powers and procedures for competent authorities. The 2019 assessment focused more on effectiveness of the sector's AML/CFT system in terms of the extent to which risks and threats of money laundering, financing of terrorism and proliferation are mitigated.

Vulnerability for the Securities sector was overall considered **medium low**, with a vulnerability score of **0.33**. This was determined using a weighting scheme that awarded the greatest weight to the sub-sector with the highest vulnerability. Detail on the weighting scheme is

highlighted in Table 5.1, which is a summary of the key findings.

Table 5. 1 Securities Sector's Vulnerability to Money laundering.

Sub-sector	ML Vulnerability	Score	Number of Institutions
Securities Dealing Firms	Medium low	0.29	17
Asset Managers	Medium low	0.28	16
Custodians	Medium low	0.39	4
Overall Vulnerability	Medium low	0.33	

SECTOR BACKGROUND

The Zimbabwe Securities market is regulated by the Securities and Exchange Commission of Zimbabwe (SECZ), through the Securities and Exchange Act [Chapter 24:25], an Act which was enacted in 2004 and operationalized in 2008. SECZ is an independent statutory body and is headed by a Chief Executive Officer and assisted by Non-Executive Commissioners. In terms of Part II (18), from First Schedule of MLPC Act [9:24], SECZ is designated as a Competent Supervisory Authority, responsible for overall supervision of the Securities industry.

The objectives of the Securities and Exchange Commission, amongst others, are to;

- Prevent market manipulation, fraud and financial crime,
- Promote investor education,
- Ensure transparency in capital and securities market.

Its main functions are as follows;

- Regulating trading and dealing in securities,
- Registering, supervising and regulating securities

exchanges, and various players in the capital markets.

The Commission supervises all Securities Market Intermediaries (SMIs) under the MLPC Act. The licensed SMIs as at 31 December 2018 are as shown in Table 5.2.

Table 5. 2 Securities Market Intermediaries in Zimbabwe.

Securities Exchanges	2
Securities Dealing Firms	17
Securities Investment (Asset) Management Companies	16
Securities Transfer Secretaries	3
Securities Custodial Companies	6
Securities Trustees	3
Central Securities Depository	1
Securities Advisory Firms	36
TOTAL	84

1st National Risk Assessment

During the 1st National Risk Assessment of 2015, the Securities Sector was found to be the least vulnerable of all the five financial sectors assessed with an overall risk rating for ML being low, at 0.29. The country crafted a national strategy to address issues identified through the national risk assessment process. Recommendations on

the Securities Sector proffered, included moving away from manual systems by automation of:

- i) The securities sector settlement,
- ii) Account monitoring systems and record keeping improving the identification of suspicious transactions.

Recommendations also included the improvement in the expertise and knowledge of the securities sector employees' understanding of AML/CFT issues through;

- i) Regular training; and
- ii) Enhancement of the compliance functions in the securities sector.

The Supervisor (SECZ) was also mandated to improve his supervision, monitoring and his visibility in the sector.

Key changes between 2015 and 2019

The low rating of the 1st NRA was mainly attributed to the operating economic environment prevailing at the time of assessment, which was characterized by low disposable incomes, and liquidity challenges, leading to limited and low appetite for savings in investment products. Several interventions were undertaken between 2015 and 2018, in order to strengthen the securities sector, and reduce vulnerability to money laundering and terrorist financing. These are as follows;

➤ Market Developments

The Commission launched the "AML/CFT Risk Based Supervision" in December 2015 after the publication of the NRA Report in June 2015. Risk Management Guidelines and Risk Based Supervision Frameworks for the entire market were finalized and circulated to all SMIs. The Commission has since commenced implementation of Risk Based Supervision. Since the NRA in 2015, the securities market has seen the introduction of, a fully automated Central

Securities Depository (CSD); an Automated Trading System (ATS) and an additional Securities Exchange was registered with an inbuilt ATS and CSD. A considerable number of processes in the securities sector are now automated. However, STR monitoring and United Nations Security Council Resolutions, ISIL and AL-Qaeda, sanctions list screening is still done manually by most SMLs.

➤ **Institutional Risk Assessment**

The FIU issued a directive on 07 April 2016 in terms of section 12A and 12B of the Money Laundering and Proceeds of Crime Act [Chapter 24:24], as inserted by section 6 of the Money Laundering and Proceeds of Crime Amendment Act (No 12 of 2018), compelling all SMLs to undertake institutional risk assessments which would also reflect the results of the NRA. This report includes input from institutional risk assessment reports.

➤ **Changes to Legislative Framework**

Additionally, the following laws and rules were gazetted in the Securities Sector:

- i) Securities and Exchange Amendment Act No.2 of 2013.
- ii) Statutory Instrument 63 of 2013, Securities (Central Securities Depository) Rules, 2013.
- iii) Statutory Instrument 100 of 2016, Securities (Alternative Trading Platform) Rules.
- iv) Statutory Instrument 83 of 2017, Securities and Exchange (Investor Protection Fund) Rules, 2017.

Further amendments of the Securities and Exchange Act [Chapter 24:25] are currently underway to extend the Commission's regulatory jurisdiction, to include the regulation of issuers, and to further improve the licensing process and to provide a legislative basis for international

cooperation with foreign regulatory authorities.

➤ **Training**

SMLs have been subjected to several AML/CFT training sessions between 2015 and 2018, with major focus being on the AML/CFT regulatory framework and the amendments thereto; how to conduct risk assessments and AML/CFT obligations as provided for in the MLPC Act.

ASSESSMENT METHODOLOGY

Module 4A, which is based on the **Securities Institution Type**, was used to assess the securities sector's vulnerability to money laundering and terrorist financing. The assessment could not use the **Product Based Approach**, because there are very few products that are currently being traded in the Zimbabwe's Securities market i.e. equities, bonds and unit trusts. The team also considered the fact that module 4A was recommended by the World Bank.

Only three (3) categories of intermediaries were used in the analysis, namely;

- i) Securities investment/asset Management Companies,
- ii) Securities dealing firms, and
- iii) Securities Custodians.

These institutions were considered the possible constituencies that could be used by criminals to launder proceeds, into the financial system through the securities sector. The Central Securities Depository, Transfer Secretaries, and Securities Exchanges were considered as providing support systems, and as such, pose low money laundering risk. Further, the selection was done taking into consideration, the inter-linkages that exist within the system.

DETAILED FINDINGS.

AML Controls in the Securities sector

Although the AML/CFT controls were analyzed separately for each category considered in the assessment, that is Securities Dealing firms, Asset Managers and Securities Custodians, the outputs/assessment results for intermediate variables produced similar results because in most cases the data used to determine the outputs was similar and thus they have been combined in the report. The quality of AML controls was **medium high** for custodians and asset managers and **medium** for securities dealing firms at scores of **0.67** and **0.50** respectively. The quality of AML Controls in the securities sector is summarized in Table 5.4 below.

Table 5. 3 Abridged Quality of AML Controls for the securities sector.

CATEGORY			Score
Securities Dealing Firms			0.50
Asset Managers			0.67
Securities Custodians			0.67

Comprehensiveness of AML legal framework for the securities sector.

The AML/CFT legal framework was considered to be **close to excellent**. In order to strengthen existing legal framework in the securities sector, the following legal amendments and rules and regulations were gazetted in the securities sector:

- i) **Securities and Exchange Amendment Act No.2 of 2013** was amended to strengthen licensing and entry requirements for SMIs by: (a) establishing the Board Licensing and Board Audit

Committees; (b) requiring the submission of Audited Financial statements by SMLs at end of each financial year; and (c) founding of the Investor Protection Fund (IPF).

- ii) **Statutory Instrument 63 of 2013, Securities (Central Securities Depository) Rules, 2013.** This paved way for the establishment and automation of the Central Securities Depository that provides for the electronic housing of dematerialised shares and settlement of share trades.
- iii) **Statutory Instrument 100 of 2016, Securities (Alternative Trading Platform) Rules,** - that creates a second lower tier electronic fully integrated CSD and ATS Securities Exchange with inbuilt mobile trading of shares and preservation of records.
- iv) **Statutory Instrument 83 of 2017, Securities and Exchange (Investor Protection Fund) Rules, 2017** - to operationalize the Investor Protection Fund.

More so, the Securities and Exchange Act [Chapter 24:25] is being amended to include regulation of issuers, strengthen the licensing process and address international cooperation. The bill is before Parliament.

Effectiveness of supervision procedures and practices.

Supervision procedures and practices in the Securities sector were considered **very high** in terms of effectiveness. The MLPC Act granted authority to SECZ to conduct AML/CFT Risk Based Supervision (RBS) inspections and as such, these have been separated from prudential inspections. SECZ has implemented the following:

- Issued AML/CFT Risk Based Supervision Framework and manual approved by the Board,
- Issued AML/CFT Compliance Inspection Manual for Securities Market Intermediaries-June 2015,

- Issued a Comprehensive Licensing Manual for Securities Market Intermediaries-June 2016,
- Conducted AML/CFT inspections between 2014-2018: 2 on Securities Exchanges; 9 on Securities Dealing firms; 2 on Central Securities Depository; 6 on Securities Financial Advisors; 22 on Securities Investment/Asset Managers; and 13 on Collective Investment Scheme Managers. RBS AML/CFT inspections commenced in 2015. AML/CFT inspection reports are produced, shared with the SMI and approved by the SECZ board. Corrective orders/actions were issued when AML/CFT deficiencies have been identified and monitoring is done on a continuous basis,
- Conducted Sectoral Risk Assessment in 2017,
- SECZ increased Staff compliment from two to four staff members dedicated to AML/CFT. Staff members are continuously being trained on AML/CFT to keep them abreast with current AML/CFT related matters.

The securities sector is, however, yet to be connected to goAML, an automated system for the submission of suspicious transaction reports.

Availability and enforcement of administrative sanctions.

Availability and enforcement of administrative sanctions was rated **high**. Administrative sanctions are catered for in terms of Section 5 of the Money Laundering and Proceeds of Crime Act (Chapter 9:24). Penalties are charged up to a maximum of \$250,000.

Additionally, the Commission can impose sanctions in terms of Section 49 and section 105 of the Securities and Exchange Act Chapter (24:25). In November 2012 the Commission suspended one Securities Dealing/ Stockbroking Firm for non-compliance with the Directive on Registration and Delivery of Shares in Client Names.

The Securities and Exchange has not imposed monetary sanctions on SMLs for non-compliance but issued more than 10 corrective orders to SMLs. No institutions have been suspended for AML/CFT deficiencies although this is catered for in the laws.

Availability and enforcement of criminal sanctions.

Availability and enforcement of criminal sanctions was rated **medium**. Criminal sanctions are incorporated in the Criminal Procedure and Evidence Act Chapter (9.07) but no criminal charges have been made as there were no AML/CFT related matters that warranted criminal sanctions. However, the Commission Cancelled licensees for two Securities Dealing/Stockbroking firms, and two licensed Securities Dealer in 2012, for engaging in non-permissible activities. Although one of the cases was challenged up to the Constitutional Court, the Commission ultimately succeeded in 2016 when judgment was issued in its favor.¹

Availability and effectiveness of entry controls

Entry controls are in place and these were considered as **close to excellent**, in terms of effectiveness. The Securities and Exchange Act [Chapter 24:25], the Statutory Instrument 100 of 2010: Securities (Registration, Licensing and Corporate Governance) Rules and the Comprehensive Licensing Manual, for Securities Market Intermediaries, have requirements for licensing, and the procedures that should be followed in the licensing process. Due diligence is performed on the applicant's senior management, directors and major shareholders. Identity documents are reviewed, and colored passport photos are provided. Police clearances, qualifications and financial credit history are also verified.

Information on fitness and probity is also obtained from a variety of

sources including other regulators, law enforcement agencies, and the financial clearing bureau, amongst others. Apart from completing the detailed application form, directors are required to fill in the Fit and Probity form. Several documents are also required including forecasted financial statements for start-ups, Risk Management Policy and the AML/CFT policy. Granting of a license is subject to the availability of all the documents required.

Integrity of staff in securities firms

Staff integrity was rated **very high** for securities dealing firms and securities custodians while it was rated **high** for securities investment management firms. Onsite inspections are conducted to check if institutions are upholding high standards of integrity and ethical behavior and licenses can be cancelled if that is not the case. There were no cases of misconduct that were reported for securities dealing firms and custodians during the period 2014 to 2018.

Cases on breaches of investment limits have been encountered with some asset managers and this led to the suspension of the institutions involved. These cases were, however, not AML/CTF related, and therefore did not affect the integrity of staff in the securities sector. The regulator pays attention to owner managed institutions, since there is overbearing on decision making, and too much influence from the owners. All these cases were, however, not AML/CFT related.

Knowledge of staff on AML/CFT issues

Knowledge of staff was rated **high** for asset managers and custodians while it was rated **medium** for securities dealing firms. From the inspections that have been conducted between 2014 and 2018, it was noted that employees generally understand AML/CFT and their obligations in that regard.

SMLs have been subjected to AML/CFT training from various trainers including SECZ, FIU, Centre of Financial Regulation and Inclusion

(CENFRI) and Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), amongst others. Some institutions also carry out their own internal AML/CFT training, especially custodians who are all part of banking groups.

However, the limited number of reported suspicious transactions in the securities sector, as depicted by a medium rating of **0.4** across all assessed categories, could be a sign of lack of adequate AML/CFT knowledge.

Effectiveness of compliance function

Effectiveness of compliance function was considered high. Statutory instrument 100 of 2010 provides, in various sections, for the appointment and reporting structure of a compliance officer and no institution can operate without one.

For all custodians, there is a compliance officer from an independent compliance unit, who specifically oversees compliance issues for the custodial business. For other small institutions, a staff member is appointed as a compliance officer, in addition to other roles he/she performs as part of their day to day work. It is therefore difficult to enforce independence of the compliance function in small institutions. Standalone compliance functions exist in larger market players. Corrective orders have been issued to institutions without compliance officers.

Effectiveness of suspicious activity monitoring and reporting

Suspicious transaction monitoring and reporting was rated **medium low** across board. Only two suspicious transaction reports have been made to the FIU from the securities sector between 2014 and 2018. Custodians are connected to goAML, an FIU system for online submission of suspicious transaction reports. All other SMLs are yet to be on boarded on the system. SMLs subscribe to various sanctions screening portals that they screen their clients against. Close monitoring

of transactions is done for those that would have been red flagged. Securities dealing firms submit, on a quarterly basis, the top 20 highest value trades and top 20 high income clients' reports to the Commission for their review. The Exchanges also pay attention to trades as they occur, and reports must be made for high value trades.

Level of market pressure to meet AML standards

Securities dealing firms are not subjected to any market pressures to meet AML standards. Custodians however have international relationships to maintain, including correspondent banking relationships and are required to comply with international best practices for AML/CFT by their counterparties. Asset Managers, to which custodians provide trustee services, are also required to comply with international best practices and they complete Wolfsburg questionnaires and Foreign Account Tax Compliance Act (FATCA) forms on account opening. The level of market pressure to meet AML standards was therefore considered **very high** for Asset Managers and Custodians.

Availability and Access to beneficial ownership information

Access to beneficial ownership information is available. Identity is verified for all clients opening accounts with any of the market players. Names of clients falling under nominee accounts are also revealed. There is also reliance on third party due diligence for non-face to face clients. Further, the Commission issued Notice No: ss 03/04/2018- Directive on Nominee Requirements for Securities Market Intermediaries- April 2018, that addresses the issue of beneficial ownership and the directive helps to identify the person on whose behalf the security is held. Access to beneficial ownership was therefore considered **very high**.

Availability of reliable identification infrastructure and independent information sources

Information on clients is accessible from the Registrar's office, Zimbabwe Revenue Authority, the Companies Registry and the Deeds Office

amongst other independent sources. All Zimbabwean investors have national identity cards and the records of their births and nationality is available with the Registrar.

Vulnerability in the Securities Sector.

The vulnerability of the securities sector to ML/TF was overall considered **medium low at a final vulnerability score of 0.33**. This was determined using a weighting scheme that awarded the greatest weight to the sub-sector with the highest vulnerability score. The weight for each institution type was determined by expressing the vulnerability score of the respective institution type as a percentage of the sum of the scores for all the three institution types. The score for each institution type was multiplied by the weight to come up with weighted vulnerability scores for each institution type. The weighted scores were then summed up to determine the overall score for the securities sector. A summary on the determination of the final vulnerability score for the securities sector is as shown in table 5.3.

Table 5. 4 Determination of overall vulnerability for the securities sector.

CATEGORY	SCORE	WEIGHT	OVERALL RATING
Securities Dealing Firms	0.29	0.30	0.09
Asset Managers	0.28	0.29	0.08
Securities Custodians	0.39	0.41	0.16
	0.96	1.00	0.33

To determine the size of each of the institution type, gross domestic product was considered instead of market capitalization. This was as a result of the fact that the market capitalization only considers transactions relating to equities trading and not all transaction activity within the securities sector for example money market and unit trusts investments. Market Capitalization was therefore considered not to be an effective indicator of the total size of the securities sector. The analysis also used gross domestic product values provided by the Zimbabwe National Statistics Agency considering that it is the official board responsible for the statistics of the country.

(a) Vulnerability of the Securities Dealing Firms.

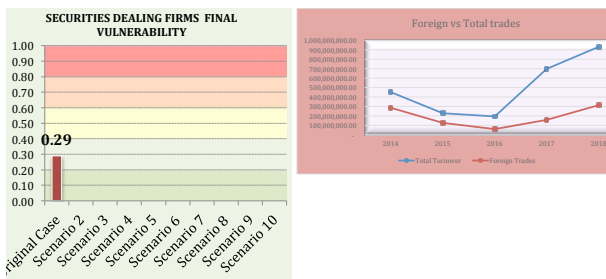
In terms of the Securities and Exchange Act Chapter (24:25), a dealing firm is a company that enters into an agreement on behalf of another person to purchase, sell, or, subscribe for or finance a security. As at 31 December 2018, Zimbabwe had 17 licensed Securities Dealing firms manned by 41 licensed securities dealers, all local companies supervised by the FIU and SECZ for AML/CFT. Additionally, Securities Dealing firms are registered with the Central Securities Depository (CSD) where they operate broker-controlled accounts, offering partial custodial services to retail clients.

Securities Dealing firms in Zimbabwe are involved in the trading of equities, bond issues, initial public offers, rights issues and other corporate actions. Trading is done electronically using a web-based system on the Automated Trading Systems of the Zimbabwe Stock Exchange (ZSE) and Financial Securities Exchange (FINSEC).

The vulnerability of Securities dealing firms to money laundering and terrorist financing was found to be **medium low** at a final vulnerability rating of **0.29**. This was determined considering the inherent vulnerability which was found to be **medium low** at **0.29** versus the

quality of AML controls that was rated **medium** at **0.5**, as shown in **Table 5.5**.

Figure 5. 1 Vulnerability vs AML Controls of Securities Dealing Firms.



Total value/size of Securities Dealing firms was rated **low**. This was determined by looking at the trend of annual market turnover in comparison to the gross domestic product from 2014 to 2018. Table 5.6 shows the trend thereto.

The market turnover for the Securities Dealing firms, constituted an insignificant proportion of GDP in all the years. In percentage terms, the proportion of market turnover to GDP for the years 2014, 2015, 2016, 2017 and 2018 were 2.85%, 1.40%, 1.17%, 3.91% and 3.7% respectively.

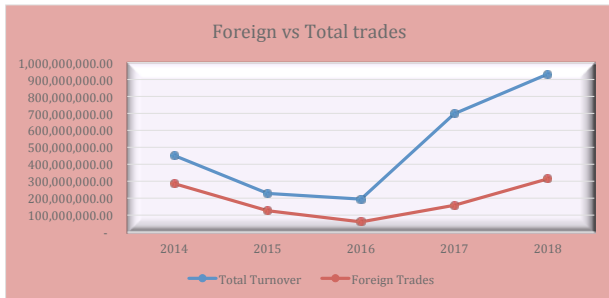
In terms of complexity and diversity, of products offered by Securities Dealing firms, only equities, bonds and unit trusts, are currently being traded in Zimbabwe. There are no complex products such as derivatives that are being traded, although the country is in the process of drafting frameworks for the trading of other securities to increase the product base. As a result, Complexity and diversity of the portfolio, was therefore, rated low.

The client base profile for securities dealing firms was rated low. A few individuals were identified as Politically Exposed Persons (PEPs) and high-net worth clients. All the dealing firms had no clients with criminal records. No new foreign investors were on boarded during the period 2014 to 2018 and no new foreign direct investment was made by the already existing foreign investors. All foreign clients are from FATF regulated countries.

Securities dealing firms do not accept cash from clients and thus investment/deposit feature does not exist. The dealing firms emphasize on the clients opening bank accounts before trading. All transactions are conducted via these bank accounts and there is no handling of cash. Securities dealing firms significantly rely on banks, which are believed to have much more stringent procedures, for due diligence and ongoing monitoring.

Liquidity of the portfolio was rated high taking into account that trading is mostly done on listed equities which are highly liquid. Settlement is done on a T + 3 settlement window enabling traders to quickly get into and out of positions. Additionally, there is an early settlement window where sellers of shares can immediately get paid, and this is offered at a discount. Only shares that the investor has in dematerialized form can be traded on the market.

Frequency of international transactions was rated low. This was considered initially taking into account the value of foreign trades recorded between 2014 and 2018 relative to the total trades. The trend is as shown in Table 5.7.

Figure 5. 2 Securities Dealing Firms Foreign trades vs total trades.

Foreign trades as a percentage of total turnovers between 2014 and 2018 averaged 41.1% with annual proportions being 63% in 2014, 55% in 2015, 31% in 2016, 23 % in 2017 and 34% in 2018. Looking at these figures in isolation could have resulted in a rating of medium low. However, there is one factor which was considered a moderator of the results shown in table 5.7. Foreign trades that were recorded between 2014 and 2018 were backed by funds that were already in circulation, and no new foreign injections were recorded in the market since 2014. Also, due to liquidity challenges in Zimbabwe, there were limitations with regard to the repatriation of foreign invested funds, and hence these funds were being rolled over in the local markets. These trades were, however, being recorded as foreign transactions, even when the money was already in circulation, and movement of money across borders has been stagnant.

Omnibus use of the product does not exist in the Zimbabwean Securities Sector. A directive is in place, that requires financial institutions to identify the names of persons under nominee accounts. Additionally, brokers periodically ask for information relating to clients who sit in the nominee accounts, including their names and addresses. Nominee accounts are highly regulated, and institutions are required to

periodically report to SECZ, on clients in the nominee accounts.

There are currently no ML typologies. All transactions are easy to trace due to the automation of trading systems and the inter-linkages that are there between the two exchanges, the central securities depository and custodians.

Investigations have been conducted on cases of suspected insider trading and market manipulation, but no convictions were made as all investigated cases were above board. We cannot however overlook the fact that these predicate offences may be going on unnoticed and hence it was concluded that they exist but are limited.

Non face to face use of the product is available in securities dealing firms. Investors can now trade in the comfort of their homes without face to face contact with the brokers through an online trading platform called C-Trade. There is however reliance on regulated third parties for due diligence. Also, there are limits with regards to the amounts that transact on the platform. If the amount is huge, then there might be a need to visit the broker involved. Memoranda of Understanding are also signed with brokers in other jurisdictions for foreign clients willing to trade on local bourses.

(b) Securities Investment Managers

Securities investment managers manage portfolios of investments on behalf of other persons. These institutions also offer products in the form of collective investment schemes commonly known as unit trusts in Zimbabwe where funds are pulled from a number of small investors and invested in shares, bonds, money market and other securities under a trust deed. As at 31 December 2018, there were 16 Securities investment management firms, 10 of which operate collective

investment schemes registered with SECZ in Zimbabwe. In total, the industry had 47 registered collective investment schemes, 41 of which were active as at 31 December 2018.

The Asset Managers used to be regulated and supervised by the Reserve Bank of Zimbabwe up to 2014 and the regulation was transferred to the Securities and Exchange Commission of Zimbabwe in terms of the Securities and Exchange Act.

The vulnerability for Securities Investment Managers was considered **medium low** at a score of **0.28**. This was explained by inherent vulnerability which also rated **medium low** at a score of **0.28** and the quality of AML/CFT controls which were rated **medium high** at a score of **0.67**, as shown in **Tables 5.8-5.10**.

Figure 5. 3 (a) and (b): Vulnerability of Securities Investment Managers and Inherent Vulnerability of Securities Investment Managers.

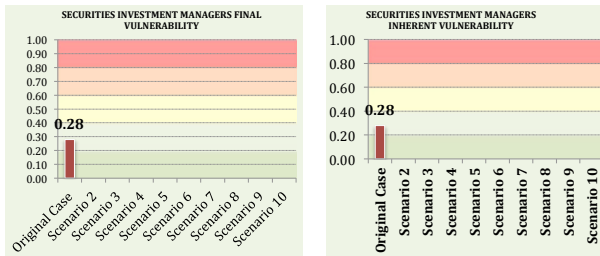
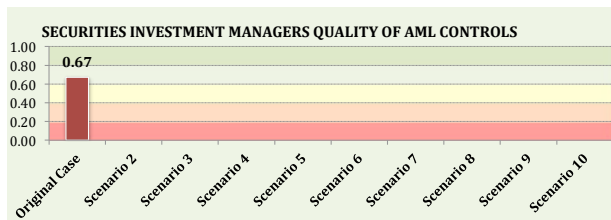


Figure 5. 4 Quality of AML Controls of Securities Investment Managers.



Total value or size was considered low. This was based on a comparison between total funds under management and GDP for the years 2014 to 2018. Although funds under management showed a stable growth between 2014 and 2018, they remained a low proportion of GDP with an average of 19% over the 5-year period. Proportions in each of the years were 13% in both 2014 and 2015, 16% in 2016, 24% in 2017 and 28% in 2018.

Complexity and diversity of the portfolio was rated medium low looking at the different types of products to which Asset managers allocate their funds. The products include unit trusts, money market instruments, equities and property. Unit trusts are, however, not very active. This implies that product diversity exists, but these products are standard and therefore non-complex.

Client base profile was rated medium low with the existence of a few politically exposed persons, high net worth clients and non-resident clients amongst others, as according to the statistics provided by Asset Managers for the analysis. Cash transactions used to be very popular from 2013 going backwards when there were no liquidity challenges in Zimbabwe, but they have become very limited even though they exist.

Asset Managers have portfolios that are quite diverse in terms of the

products that they invest in. These include equities, bonds, money market instruments, property and alternative investment products with more funds being allocated to money market instruments and in equities. Liquidity of the portfolio was therefore considered medium high.

International transactions have also been low due to liquidity challenges in Zimbabwe. There is no omnibus use of accounts and there are currently no ML typologies. All transactions are easy to trace due to robust systems in place and non-face to face relationships exist but are limited.

(a) Securities Custodian

A securities custodian is a firm that holds securities in custody for another person and dealing with them to the extent necessary for that custody. Custodians in Zimbabwe hold money or property on trust for their customers. As at 31 December 2018, there were six registered securities custodians, with only four that were operational. Services offered by custodians include registration of securities, safekeeping of investors' assets, trade processing and settlement, income collection, client reporting, corporate actions, compliance monitoring and reporting, proxy voting services and dematerialization of securities.

All securities custodians in Zimbabwe are banks and this is in line with the recommended Principles of Financial Market Infrastructure. There is a direct dual supervision by SECZ and the Reserve Bank of Zimbabwe in terms of AML/CFT.

The vulnerability for Securities custodians was considered **medium low** at a score of **0.39**. This was explained by inherent vulnerability which was rated **medium** at a score of **0.43** and the quality of AML/CFT controls which were rated **medium high** at a score of **0.67**, as shown in Tables 5.12-5.14.

Figure 5. 5 (a) and (b) Vulnerability of Securities Custodians and Inherent Vulnerability of Securities Custodians

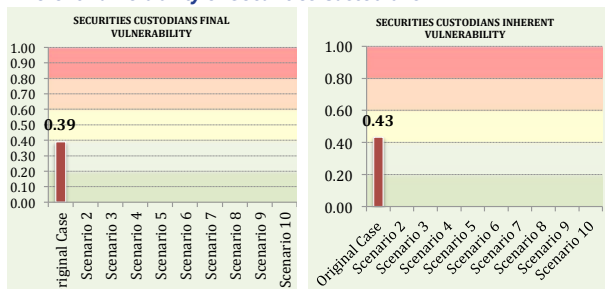
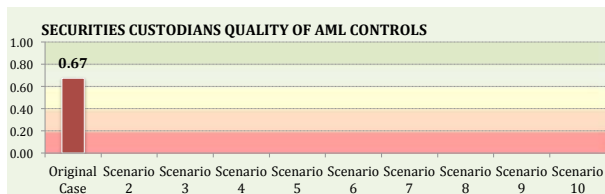


Figure 5. 6 Quality of AML Controls of Securities Custodians.



Total value/ size was considered low taking into account the proportion of total funds under custody relative to GDP from 2014 to 2018. Although assets under custody grew between 2014 and 2018, they contributed a low proportion of the GDP in each year. On average, assets under custody contributed 22% of GDP with percentages per annum being 17% in 2014, 14% in 2015, 16% in 2016, 30% in 2017 and 35% in 2018.

Complexity and diversity of the product was considered medium low. Services offered by Securities custodians in Zimbabwe include safekeeping of securities and settlement on behalf of foreign and

local clients. Other custodians also offer trustee services. Settlement is only done for unit trusts and shares and no complex products such as derivatives or contracts for difference are settled.

The client base profile for securities custodians was rated medium. One of the four operating custodians does not maintain accounts for individuals. For those that do, they reported that they have no PEPs in their portfolios. Most of the foreign business comes through global and regional custodians from FATF regulated countries who conduct due diligence for foreign clients on behalf of the local custodians. However, the fact that the local custodians have no direct relationships with the ultimate beneficial owners poses ML/TF risk.

All funds are channeled through normal banking systems and as such there is no deposit feature. Settlements are mostly done for shares which are highly liquid. Frequency of international transactions was rated medium low. As explained in the section for securities dealing firms, no new funds have been coming into the market and repatriations have been very limited.

Omnibus accounts do not exist in the custodial business and there are also no ML typologies on abuse of securities. Custodians are post trade agents hence predicate offences such as insider trading and market manipulation do not apply to them. There are also no difficulties in tracing transactions as the settlement process is automated.

Custodians have non face to face clients in their portfolios. These include both individuals and corporates. Some businesses come through global custodians who open accounts on behalf of foreign clients. These custodians send representative from time to time for direct interface with the Zimbabwean counterparties.

RECOMMENDATIONS AND CONCLUSIONS

The analysis identified AML/CFT areas that need prioritization. The areas were common amongst all categories considered in the analysis. **Table 5.16** shows the prioritisation lists according to their level of priority.

Table 5. 5 Prioritization list.

	Securities dealing firms	Securities custodians	Asset Managers
1	<ul style="list-style-type: none"> AML knowledge of staff 	<ul style="list-style-type: none"> Suspicious transaction monitoring 	<ul style="list-style-type: none"> Suspicious transaction monitoring
2	<ul style="list-style-type: none"> Suspicious transaction monitoring and reporting 	<ul style="list-style-type: none"> Enforcement of Criminal Sanctions 	<ul style="list-style-type: none"> Enforcement of Criminal Sanctions
3	<ul style="list-style-type: none"> Enforcement of Criminal Sanctions 		

OVERALL FINDINGS

The vulnerability of the securities sector to money laundering and terrorist financing was found to be **medium low** at a final vulnerability score of **0.33**. Several factors were identified that explain this rating and these are as highlighted below; The use of the normal banking channel for deposits of investment funds somehow transfers the risk of “**placement**” of the proceeds of crime to the banking sector as most transactions are based on Real Time Gross Settlement (RTGS).

- International movement of funds both in and out of Zimbabwe is limited because of liquidity challenges bedeviling the Zimbabwean economy.
- Automation and integration of trading systems makes all transactions easy to trace and as such any unusual transactions

are easily detected.

- Value of transactions remains very low relative to the Gross domestic product implying limited activity in the securities sector as compared to other sectors within the economy.
- Limited diversity and complexity of the product base leaving launderers with very limited options of where to place their funds within the securities sector.
- Effective regulation, supervision and monitoring by the regulator for the securities sector, the Securities and Exchange Commission of Zimbabwe.

AREAS OF IMPROVEMENT

A number of areas were identified as needing improvement in the securities sector. The following recommendations can therefore be made.

- Increase in training programmes for securities market intermediaries to keep them abreast with any new developments in AML/CFT and to improve their understanding on what constitutes suspicious transactions and how to identify them.
- Investment in machine learning that will automatically flag any unusual transaction activity as suspicious without much human intervention into the process.
- Investment in robust surveillance systems and improvement on investigations to assist in the identification, prosecution and conviction of criminal subjects within the securities sector.
- There is need for the sector to implement systems for the submission of thresholds reports for transactions above USD1,000/ RTGS\$10,000
- Amendment of the primary legislation, the Securities and

Exchange Act, to;

- i. includes monetary administrative sanctions
 - ii. Incorporate AML/CFT obligations on the objectives and the functions of SECZ
- Subscription to screening software such as World Check for vetting of applicants.

CHAPTER 6

INSURANCE SECTOR VULNERABILITY

KEY FINDINGS FOR THE INSURANCE SECTOR

The sector was rated medium low on vulnerability to ML. The low risk rating is on account of low cash activity, limited exposure to cross border trades, and absence of anonymity in the use of products. Sources of premiums and pension contributions for dominant products such as group life assurance, pension funds and annuities are largely salaries which are deducted at source.

SECTOR BACKGROUND, OVERVIEW AND ASSESSMENT METHODOLOGY

As at 31 December 2018, the insurance industry had eleven (11) life insurance companies, five (5) life reinsurers, nineteen (19) non-life insurers, nine (9) funeral assurers, two (2) composite insurers, thirty-three (33) brokers and one thousand one hundred and two (1,102) private occupational pension funds. Gross premium written by life insurance companies averaged US\$426.7million per annum during the period 2014 to 2018 and pension contributions averaged US\$330 million over the same period. As at 31 December 2018, the life industry had an asset base of US\$8.9 billion made up of US\$5.2 billion worth of pension assets and US\$3.7 billion worth of insurance assets. Tables 1 and 2 below show trends in gross premium written, pension contributions and assets during the period 2014 to 2018: -

Table 6. 1 Gross Premium Written and Pension Contributions (2014 to 2018)

Year	Life Gross Premium Written (US\$)	Pension Contributions (US\$)	Total Premiums and Contributions (US\$)
2014	345,779,000.00	324,813,964.00	670,592,964.00
2015	377,278,000.00	163,701,506.00	540,979,506.00
2016	385,339,000.00	392,192,172.00	777,531,172.00
2017	546,261,001.00	434,631,798.00	980,892,799.00
2018	79,089,000.00	335,721,585.00	814,810,585.00
Total	2,133,746,001.00	1,651,061,025.00	3,784,807,026.00

Table 6. 2 Total Life Assets (2014 to 2018).

Year	Life Insurance Assets (US\$)	Pension Assets (US\$)	Total Assets (US\$)
2014	1,631,902,000.00	2,455,458,806.00	3,126,051,770.00
2015	1,591,190,000.00	1,356,104,747.00	2,947,594,747.00
2016	1,736,680,000.00	3,431,287,027.00	4,167,967,027.00
2017	2,883,186,000.00	4,349,370,230.00	7,232,556,230.00
2018	3,676,074,000.00	5,216,882,457.00	8,892,956,457.00

Life Products Offered

Main life insurance products offered in Zimbabwe include funeral, group life assurance, endowment policies, investment products and pension products, including annuities.

Generally, life insurance and annuity products present the most significant money laundering risks in the insurance industry because

such products allow a customer to place large amounts of funds into the financial system with the potential of transferring those funds to another person or entity, thus masking its true origin. These products include:

- (a) Life insurance policies with any type of cash surrender value, Any annuity contract, other than a group annuity contract,
- (b) Any other insurance product with features of cash value or investment,
- (c) Individual pension savings products, and
- (d) Voluntary pension contributions.

Table 3 presents a description of the common products: -

Table 6. 3 Life products offered

Name of product	Product Description
Funeral business	<p>A life product that provides an agreed sum assured upon the death of the life insured. Cover ranges from insurer to insurer subject to a maximum as approved by IPEC.</p> <p>Most insurers offer funeral services in lieu of the sum assured and these include provision of coffins, hearses, buses to ferry mourners, mortuary services, tents and lowering machines. Some policies have options to pay the sum-assured in cash.</p> <p>The number of funeral assurance policies sold to the market during the period 2014 to 2018 averaged 86% of total number of policies. The bulk are Micro-insurance funeral products</p>
Group Life Assurance (GLAs)	<p>This provides life cover for members of a group (five or more members belonging to the same organisation, religious grouping or belonging to the same union). Most of the GLAs are employer-based schemes, where the employer pays premiums for its employees as part of contractual arrangements.</p>
Endowment Policies	<p>A whole of life product that pays an agreed sum assured upon death of the life insured. There are 2 options available – cash back (offering % of premiums paid back after every 5 years survived, subject to a maximum age as determined) and zero-cash back options.</p>

Annuities/Pension Funds	<p>Pension funds are established by employers to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. Can be Defined Contribution (DC) or Defined Benefit (DB).</p> <p>DC: The employer chooses contribution levels for the purposes of pension build-up during the period of employment.</p> <p>DB: Pension benefits are pre-defined by a formula that takes into account the member's pensionable service and salary at or close to retirement.</p>
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Life insurance products can be used to facilitate money laundering and financing of terrorism. There are several ways in which the insurance industry can be used to launder dirty money or finance terrorism. Examples include those highlighted in the table below: -

Table 6. 4 ML methods in the Insurance Sector.

Vulnerability to ML	Applicability to Zimbabwe
Acceptance of payments or receipts from third parties;	Yes
Acceptance of very high value or unlimited value payments or large volumes of lower value payments;	No
Acceptance of payments made in cash or money orders;	Yes but with limits.
Acceptance of frequent payments outside a normal premium policy or payment schedule;	No
Acceptance to be used as collateral for a loan and/or written in a discretionary or other increased risk trust;	Yes
Products that allow for high cash values;	No
Products that accept high amount lump sum payments, coupled with liquidity features;	Yes but rare.
The extent and nature of cross-border activity;	Yes but limited
Selling units in investment-linked products such as annuities;	Yes

Using insurance proceeds from an early policy surrender to purchase other financial assets;	Yes
Buying policies that allow the transfer of beneficial interests without the knowledge and consent of the issuer e.g., second hand endowment and bearer insurance policies; and	No
Buying products with insurance termination features without concern for the product's investment performance, among others.	No

Market Structure for the Life Insurance Business

The risk business of the life insurance industry has an oligopoly market structure, with five out of the eleven companies controlling 89.7% of gross premium written during the year ended 31 December 2018. Similarly, 3 top life reinsurers control 91% of gross premium written. The occupational pension industry had a total membership of 795,444 people as at 31 December 2018. Of the 1,102 private occupational pension funds, 913 are insured pension funds administered by six life insurance companies. Of the remaining 189 pension funds, 16 are stand-alone schemes, whilst the rest are self-administered by 5 dedicated pension fund administrators and 5 life offices.

Consumer Confidence

The insurance industry in Zimbabwe is still suffering from low confidence levels arising from legacy issues emanating from loss of values experienced during the hyper-inflationary years from 2002 to 2008 and subsequent introduction of multiple currencies in 2009.

The sector is experiencing a second episode of loss of value following the currency reforms implemented after the 20 February 2019 Monetary Policy Statement. Such loss of value has a bearing on the attractiveness of the sector to money launderers. The loss of value also discourages uptake of individual and investment products.

Stakeholder Participation

Stakeholders that participated in the ML risk assessment included the Insurance and Pensions Commission (IPEC), which is the supervisory authority for the insurance industry, industry associations, life insurance companies, funeral assurers, pension funds, insurance brokers and reinsurance companies.

Table 6.5 Participants in the Insurance ML Assessment.

Sector	Participants
Life insurance companies	11
Funeral assurance companies	3
Short-Term insurance	5
Reinsurance companies	2
Reinsurance brokers	1
Agents	2
Technology-driven entities	2
Insurance brokers	7
Pension funds	6
Fund administrators	2

Data collection was done through Module 5 of the Fourth-Generation World Bank Tool, additional questionnaires, interviews and meetings, as well as analysis of IPEC reports. Whilst data was initially collected from short-term, intermediaries and life companies, the focus of risk assessment was on intermediaries, life insurance products including pensions, in line with the scope of the FATF Recommendations. Prior to the launch of the Second NRA, selected life insurance companies and pension funds were requested to submit information on AML/CFT

issues which included the following: -

- (i) AML/CFT policies and procedure manuals,
- (ii) Training and capacity building programmes,
- (iii) Politically Exposed Persons registers, Details of AML/CFT Compliance Officers, AML/CFT internal audit reports, and
- (iv) AML/CFT institutional risk assessments.

The above information was meant to assess the level of general compliance with AML/CFT obligations.

Scope of assessment

Focus of the ML risk assessment was on life business, including pensions, as well as intermediaries such as brokers and agents. The assessed products were annuities, term-assurance products, endowment policies, life policies, group life assurance, funeral, and pension funds.

The above products were assessed on account of the fact that they fall within the scope of the FATF definition of financial institutions and also covered in the Money Laundering and Proceeds of Crime Act [09:24]

DETAILED FINDINGS

Table 6. 6 Assessment of general input variables

General Input Variable	Rating Score	Justification
Comprehensiveness of AML Legal Framework	Very high (0.8)	<ul style="list-style-type: none"> • Updated MLPC Act (2018) and Deeds Act • 2012/2019 Guideline issued by the FIU. • Directives to other financial institutions issued by the FIU also applicable to the insurance sector. • The April 2019 technical compliance re-ratings by ESAAMLG confirmed the comprehensiveness of the legislation

Effectiveness of Supervision Procedures and Practices	Medium (0.5)	<ul style="list-style-type: none"> • IPEC is a designated competent supervisory authority in terms of MLPC Act and has authority and mandate to conduct AML compliance supervision for the insurance sector • However, IPEC is in the process of developing comprehensive AML supervisory framework including policies, procedures and manuals. • IPEC staff undergoing regular AML training, and there are annual budgets for AML. The supervisor has also institutionalised the AML function by appointing AML/CFT desk officers – job descriptions now include AML • IPEC is yet to commence dedicated AML/CFT onsite inspections.
Availability and enforcement of administrative sanctions	Medium (0.5)	<ul style="list-style-type: none"> • Appropriate administrative sanctions are as set out in Sections 8, 9, 23 and 28 of the MLPC Act and IPEC is empowered under the same Act to impose sanctions for non-compliance as a competent supervisor under First Schedule, Part 1 [financial institutions]. • The Commission is empowered by its enabling laws to approve appointment of key positions in an insurer or pension fund and cause the removal of such key persons if they become unfit and improper as specified in the Directive of Systems of Governance and Risk Management as well as under Section 74 of the Insurance Act [24:07], Circular 3 of 2018 and SI 80 Of 2017. • Whilst the Commission has the above powers, the supervisor has not yet imposed any sanctions for breaches of AML reporting obligations.
Availability and Enforcement of Criminal sanctions	Medium 0.5	<ul style="list-style-type: none"> • Appropriate criminal sanctions are in place in the MLPC Act for non-compliance with AML obligations. The sector has no access and does not collate statistics on ML investigations, prosecutions and convictions relating to the insurance industry.

Availability and Effectiveness of Entry Controls	Medium high (0.6)	<ul style="list-style-type: none"> Section 4 of the IPEC Act [Chapter 24:21] empowers IPEC to register, regulate and supervise insurance companies, pensions funds and intermediaries in the industry. In addition to the Act, IPEC has issued Statutory Instruments, Circulars and Directives on licensing, including fitness and probity tests on shareholders, board of directors and management positions. [Licensing Manuals and Circular 3 of 2018]. The Commission issued Circular 6 of 2016 that requires all insurance products offered by insurers to be subjected to examination and approval before they are launched in the market.
Integrity of Staff in Insurance Companies	Medium High (0.6)	<ul style="list-style-type: none"> As part of prudential requirements, the Commission requires insurers to submit police clearance for all senior appointments as part of vetting. All insurers are required to have code of ethics and training programmes for AML. On-site inspections are carried to detect malpractices and ensure that insurance companies are professionally administered. IPEC licenses all agents of insurance companies to maintain professionalism and integrity in the sector. The agents can be de-registered in cases of misconduct.
AML Knowledge of Staff in Insurance Companies	Medium (0.6)	<ul style="list-style-type: none"> Downton Hill in conjunction with the FIU has been conducted training programmes for the sector in 2017 and 2018. Most insurers have AML policies and procedures. The supervisor has not been conducting AML awareness programmes.
Effectiveness of Compliance Function (Organisation)	Medium (0.5)	<ul style="list-style-type: none"> Institutions have AML Compliance Officers though they have other compliance responsibilities. Systemic institutions such as Old Mutual, produce regular AML compliance reports and internal audit reports on AML, which are discussed at Board level.
Effectiveness of Suspicious Activity Monitoring and Reporting	Medium (0.6)	<ul style="list-style-type: none"> Whilst ML risk is generally low, the systemically important institutions have AML policies and systems in place for detection and reporting of STRs. The systems are manually driven owing to the low risk as evidenced by the recent institutional risk assessment reports. Insurers submit monthly CTRs and STRs reports to the FIU.

Level of Market Pressure to Meet AML Standards	Medium high (0.6)	<ul style="list-style-type: none"> • Parent companies of the top two insurers with a combined market share of 50% of premium income are domiciled in foreign jurisdictions. • Pressure for AML compliance when entering into reinsurance and treaty programmes as countries prefer dealing with low risk jurisdictions.
Availability and Access to Beneficial Ownership Information	Medium High (0.6)	<ul style="list-style-type: none"> • Recent amendments to the MLPC Act and the Deeds Act enhanced provisions on beneficial ownership. • When licencing applications from foreign shareholders, the Commission cooperates with fellow supervisors to identify natural persons controlling an entity. The supervisor has access to the Registrar of Companies' database. There are still deficiencies to do with beneficial ownership, which are being addressed through the Companies and Other Business Entities Bill such as nominee companies, SPVs.
Availability of Reliable Identity Infrastructure	Medium High (0.6)	<ul style="list-style-type: none"> • There are three Government-issued identity documents namely driver's licence, identity cards and passports. Insurers and pension funds do not have automated access to databases of ID, passport and drivers' licence issuers.
Availability of Independent Sources of Information	Low 0.3	<ul style="list-style-type: none"> • Insurers and pension funds have access to independent credit reference bureau, utility bills and former employer records.

Inherent Risk assessment

The Module participants assessed inherent money laundering risks in life products taking into account the following, among other considerations in the World Bank Tool: -

- a) Levels of STR/CTR per product,
- b) Whether the product can be used as collateral for a loan or other debt obligations,
- c) Whether benefit is paid on a defined event only e.g. death/

disability,

- d) Whether the product allows for acceptance of payments made in cash or cash deposits,
- e) Whether the product features allow for easy settlement of, or withdrawal/ disinvestment from the product,
- f) Whether the product allows for payment to third-parties, and
- g) Whether the product allows for transferability of ownership.

The Table below summarises as an assessment of each product, assigned risk score and justifications: -

Table 6. 7 Product Ratings in the Insurance Sector.

Product Name	Risk rating	Justification
Annuities	Medium Low (0.4)	<ul style="list-style-type: none"> - Most of the annuitants buy the product from pension pay-outs, which are legitimate sources. - Limited use of cash to pay for products and services. - Product not available for international transactions owing to legal restrictions on off-shore investments. - Absence of anonymity of policyholders or beneficiaries. - Not easy to withdraw/ disinvest from the product. - Product does not allow for payment to third-parties.
Pension	Low (0.3)	<ul style="list-style-type: none"> - contributions are employer-funded and made by way of deduction from wages. - Insignificant volume and value of voluntary pension contributions from individuals. - The value of pensioner's payments across the Zimbabwe border are low. - All pension contributions are paid through bank accounts. - Pension benefits are paid into the bank accounts. - Transferability of ownership is not possible. - Pension benefit (s) cannot be paid to third-parties.

Group Life	Low (0.3)	<ul style="list-style-type: none"> - Product is mainly funded through employer funded premiums and benefits pay-outs are made only after death of the insured. - Premiums are employer-funded and paid through bank accounts. - Product not available for international transactions owing to legal restrictions on off-shore investments. - Anonymity of policyholders or beneficiaries not permitted.
Endowment	Medium Low (0.4)	<ul style="list-style-type: none"> - The industry does not have second hand endowment policies i.e. any bearer arrangements for endowment policies. - Payments are of moderate amounts, ranging from as low as \$10 to \$2,381 from the policy documents analysed. - Product can be used as collateral for a loan or other debt obligations. - Benefit can be paid on death or maturity of the policy. - Product allows for acceptance of payments made in cash or cash deposits up to a prescribed limit. - Product allows for payment to third-parties nominated by the policyholder.

Table 6. 8 Vulnerabilities Associated with Intermediaries

Name of Intermediary	Risk rating	Justification
Agents	Low (0.3)	<ul style="list-style-type: none"> - The conduct of both individual and corporate agents is monitored by insurers. - Agents use KYC requirements of insurers and underwriting checks and verification of identity ultimately remains the responsibility of the insurer involved. - Anonymity of customers is impossible.

Brokers	Medium Low (0.32)	<ul style="list-style-type: none"> - No anonymous transactions. - Customer due diligence ultimately remains the responsibility of the insurer involved.
Aggregators	Low (0.3)	<ul style="list-style-type: none"> - Do not take own risk but collect premiums on behalf of insurers. - Do not do own boarding of clients.

RECOMMENDATIONS AND CONCLUSIONS

The following recommendations are made in terms of order of priority: -

- 1) The Insurance and Pensions Commission should finalise draft AML supervisory framework including policies, procedures and manuals.
- 2) The Insurance and Pensions Commission should review its licensing requirements to incorporate AML issues such as sources of funds, beneficial ownership, AML policies and procedures.
- 3) Capacity building, training and awareness programmes should be extended, not only to IPEC but also to agents, front office staff, senior management and board members of life insurers to inform intervention efforts under a risk-based approach.
- 4) IPEC to fully incorporate AML supervision in its onsite inspections. Joint AML/CFT onsite inspections with other financial sector supervisors would go a long way in enhancing supervisory capacity and group-wide AML/CFT supervision.
- 5) There is need to ensure that the on-going amendments to the insurance and pensions legislation will incorporate provisions empowering IPEC, to do fitness and probity tests on all licensed intermediaries, including shareholders on an on-going basis.
- 6) Setting up of an insurance bureau to counter insurance fraud, whose proceeds can be laundered through the sector once confidence has been restored or laundered to other sectors of the

economy.

- 7) Relevant staff members for life insurers should be trained to identify and report CTRs and STRs. Insurers should regularly review their AML/CFT policies and procedures to ensure that their AML/CFT measures remain effective to detect and curtail potential ML/TF risks.
- 8) There is need for Government to ensure that insurers and pension funds have automated access to databases of Government departments responsible for issuing national identity documents to facilitate ease of customer verification and beneficial ownership.

CHAPTER 7

MICROFINANCE INSTITUTIONS (MFIS) VULNERABILITY

KEY FINDINGS FOR THE MICRO FINANCE INSTITUTIONS SECTOR

The size of the micro finance sector in Zimbabwe remained low from the period 2014 to 2018 as reflected by the low level of total loans which on average constituted less than ten percent of total banking loans.

The assessment then took into consideration, the AML controls (i.e. intermediate variables) in place for the Microfinance sector, which prevent, deter and detect money laundering from occurring within or through the sector. The AML controls in place for the Microfinance sector were noted to be **medium**.

Assessment of the Microfinance sector revealed that, in the absence of AML controls, the sector's exposure to ML risk was medium low (i.e. inherent ML risk). Risk factors which were used to assess the inherent ML risk were: size of business; client base profile; use of agents; level of cash activity; and frequency of international transactions.

The residual ML risk exposure of the sector was then noted to be **medium low**. The rating is premised on the low value of transactions in the sector, coupled with presence of operational risk controls, legislative framework in place and supervisory oversight mechanisms in place to control and monitor the conduct of microfinance transactions.

There is also clear due diligence and regulatory approval before any new microfinance institutions are authorized to commence operations. The stringent licensing operation involves verification of sources of funds and assessment of the fitness and probity of promoters and members of senior management.

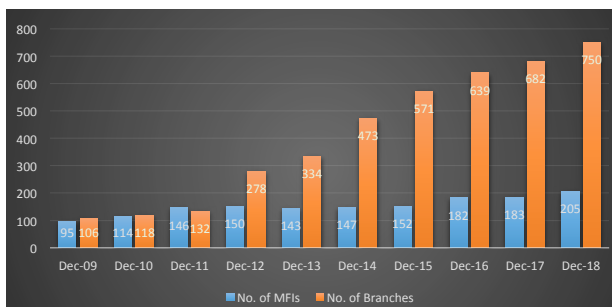
SECTOR OVERVIEW, BACKGROUND AND METHODOLOGY

Microfinance institutions in Zimbabwe are licensed and supervised in terms of the Microfinance Act [Chapter 24:29]. Their operations involve the provision of short-term loans to low income segments of the population.

As at 31 December 2018, there were 205 registered microfinance institutions, a significant increase from 147 in 2014. The registered microfinance institutions comprised of one hundred and ninety-nine (199) licensed credit-only microfinance and moneylending institutions (credit-only MFIs) and six (6) deposit-taking microfinance institutions (DTMFIs).

Over the years, microfinance outreach for the industry improved significantly in terms of both the number of branches and the number of active microfinance clients. The sector's branch network registered a significant growth from 473 in 2014 to 750 in 2018. The trend in the number of microfinance institutions and their branch network is shown in the Figure 1 below.

Figure 7. 1 Trend in the Number of MFIs & Branches

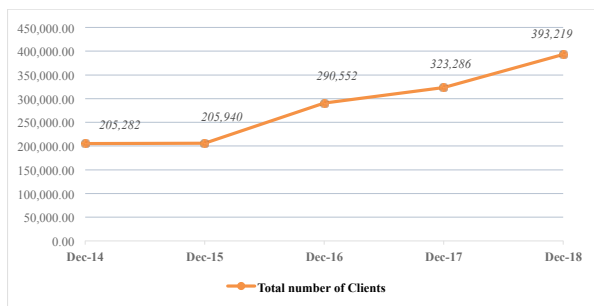


In assessing the MFIs sector, key stakeholders in the sector, who formed part of the Module 6 committee, provided 90% of the data used to assess the sector's vulnerability to ML risk. Stakeholders were allocated duties of data collection, collation and interpretation. Stakeholders were to collect relevant data from their respective institutions.

The data collected was analysed and used to rate the vulnerability of ML risk indicators, and to rate the AML controls. Critical analysis of the data was conducted by members of the working group during meetings convened between February and May 2019.

Figure 7. 2 Growth in Number of Active Clients.

The sector also registered an increase in the number of active clients from 205,282 in 2014 to 393,219 as at 31 December 2018 in tandem with the increase in the number of microfinance institutions branches, and other digital distribution channels during the same period.



During the 2015 NRA, the sector was determined to be relatively small in terms of its loan size, number of licensed institutions and contribution to the national economy. However, the microfinance loans comprised of numerous small loan transactions which increased its vulnerability money laundering.

The loans were largely disbursed through electronic and mobile transfers. These electronic transfers, which are conducted through banking and mobile accounts, reduce the sectors' exposure to ML risk which may be posed by use of cash.

AML control measures in place as noted on the previous NRA included AML regulations and guidelines such as the MLPC Act which designated the MFIs, existence of a supervisory authority, which licenses and regulates the activities and operations of microfinance institutions and enforce MFIs' compliance.

The Reserve Bank's Supervision Division conducts thorough vetting of owners, promoters, directors and senior managers of Microfinance institutions including ascertaining their source of funding before authorizing them to commence operations. Their operating licenses are renewed on an annual basis subject to compliance with regulatory provisions.

The FIU and Bank Supervision have dedicated resource persons committed to enforcing AML/CFT compliance in the microfinance sector. However, microfinance institutions were not submitting suspicious transactions reports to FIU.

During the first NRA, vulnerability to ML risks for the MFI sector was noted to be medium (M), with a score of **0.51**.

FINDINGS-STRUCTURAL RISK INDICATORS

Inherent ML risk rating.

Size of business and professions.

The number of MFIs, when compared with the other financial institutions which offer similar services (banks) are relatively high, which may increase the possibility of a money launderer using the sector to launder proceeds of crime. The number of MFIs increased from 147 in 2014 to 205 in 2018. The total number of MFIs branches also increased

from 473 in 2014 to 778 in 2018 reflecting the wider outreach by microfinance institutions.

The risk assessment revealed that the average value of loans is however less than \$1,000 which presents low risk in terms of threats to ML/FT risks. Microfinance institutions are largely funded through local equity and have less access to foreign lines of credit largely as a result of their tenure of licenses which is just one (1) year. The nature of their funding poses less risk to threat of ML/FT as foreign investors are not keen to invest in an institution with operating licenses valid for just one year. The average number of MFI clients increased marginally from just above 200,000 in 2014 to just over 300,000 in 2018 out of an estimated adult population of about 8 million.

Although the total microfinance loans increased from \$156.99 million in 2014 to \$387.87 million in 2018, the total loans constitute less than 10% of the total banking sector loans. The vulnerability of the structural risk indicator was therefore rated **medium low**.

Client Base Profile-

Majority of MFIs clients are largely salaried civil servants which constitute an estimated 70% of the MFIs clients. Domestic and/or international Politically Exposed Persons (PEPs) constitute less than 0.5% of the total MFI clients. High net worth customers do not usually borrow from MFIs, whose services mainly target the low income earners with small value loans.

In 2018, loan sizes averaged \$986.49, and on average the size of loans is less than \$1,000 which poses limited risk to threats of the sector being used for money laundering. Most of recipients of microfinance loans are ordinary citizens who give reasons for the receipt of such funds as family upkeep, school fees payments, funeral expenses, medical expenses and housing construction. Most of the recipients are ordinary Zimbabweans.

The survey revealed a low possibility of the MFIs sector dealing with high risky customers such as politically exposed persons and foreigners who usually require large amounts of loans over a longer period of time.

Vulnerability of the structural risk indicator was noted to be low (L).

Use of Agents.

MFIs do use agencies to reach out to remote areas. However, the scope of use of agencies is limited to distribution of application forms while loan processing is done at a formal branch. The limited scope of the agency roles reduces the level of ML risk by MFIs. **Vulnerability of the structural risk indicator was noted to be low (L).**

Level of Cash Activity

The survey conducted on MFIs together with review of bank transactions of MFIs revealed that loan disbursements are largely facilitated through mobile platforms and electronic transfers. There has been a gradual shift by financial institutions from the use of cash largely due to the shortage of cash in the economy. Loan repayments are mostly effected through direct deductions from salary particularly for salaried borrowers or civil servants. Deposit-taking MFIs (only 6 in total) also receive most of their deposits through electronic transfers. As at 31 December 2018, deposits by DTMFIs only amounted to \$23.85 million compared to total banking sector deposits of over \$9.8 billion. Due to the low level of cash activity, the vulnerability of the structural risk indicator was noted to be **low (L)**.

Frequency of international transactions

Frequency of international transactions was noted to be low. Microfinance institutions are not permitted to participate in international and foreign currency transactions. They are also prohibited from lending in foreign currency and extending credit to foreigners. MFIs are also largely funded through local equity and have less access to foreign lines of credit largely due to their tenure of licenses which is just one

(1) year. The nature of their funding poses less risk to threat of ML/FT as foreign investors are not keen to invest in an institution with operating licenses valid for just one year. The vulnerability of the structural risk indicator was noted to be low (L).

THE OVERALL INHERENT ML RISK RATING FOR THE MFIS SECTOR WAS NOTED TO BE MEDIUM LOW WITH A **SCORE OF 0.25.**

AML Control Measures.

Comprehensive AML Legal Framework

MFIs are designated institutions in terms of the Money Laundering and Proceeds of Crime Act, and are required to effectively implement AML measures using the risk based approach. Sector specific AML/CFT Guidelines for the sector are, however, yet to be developed and currently MFIs are not submitting STR/CTR reports to FIU despite MFIs being designated institutions. *The control measure was rated **medium high***

Effectiveness of Supervision/Oversight Activities

Bank Supervision, as the supervisory authority, conducts prudential offsite and onsite monitoring of MFIs. MFIs are subjected to offsite and not yet to onsite AML/CFT supervision and monitoring by either the FIU or Bank Supervision. Whilst the MLPC Act empowers the Unit and Bank Supervision to supervise MFIs, implementation of these measures is yet to be fully undertaken. Currently MFIs are not submitting STR/CTR reports to FIU despite MFIs being designated institutions in terms of the MLPC. *The control measure was rated **low**.*

Availability and Enforcement of Administrative Sanctions

Section 5 of the MLPC Act provides for civil infringements and imposition of civil penalties and other sanctions, and section 6, enforcement of civil penalties and accounting for proceeds thereof. In addition, the Microfinance Act provides for appropriate sanctions for contravening

or failing to comply with (i) any provision of the Act; or (ii) the terms or conditions of any permit, authority, permission, direction, notice, order or other instrument made or issued under or by virtue of the Act. In view of limited AML/CFT monitoring, no violations of the MLPC Act, which warrant imposition of administrative sanctions were noted from 2014 to 2018. *The control measure was rated **medium**.*

Availability and Enforcement of Criminal Sanctions

The MLPC Act criminalizes money laundering in terms of section 8; as such, any MTA or any of its staff, and customers, who commit the offence of money laundering, would be penalized in terms of the Act. The Criminal Law Codification Act criminalizes the commission of various serious offences which owners and clients of MFIs can commit. Some of these crimes are money laundering, fraud, corruption, and theft.

Also, the Criminal Procedure and Evidence Act [Chapter 9:07] consolidates and amends laws relating to procedure and evidence in criminal cases. It deals with: prosecution at public instance, private prosecutions, prescription of offences, arrests, search warrants and seizures, preparatory examinations, confirmation of extra-curial statements, bail, indictments and charges, procedure before commencement of trial, procedure after commencement of trial, procedures in respect of cases adjourned under section 54 of Magistrates Court Act, witnesses and evidence in criminal proceedings, discharge of accused persons, previous convictions and finger-prints, judgment on criminal trial, punishments, compensation and restitution, and pardon and commutation. Although these provisions are yet to be sufficiently tested on MFIs, the rating of this control measure was high. *The control measure was rated **high**.*

Availability and Effectiveness of Entry Controls

MFIs are regulated by the Microfinance Act [Chapter 24:29] which provides for the licensing and supervision of MFIs. The Reserve Bank has developed comprehensive licensing framework for MFIs to ensure

that only fit and proper persons are allowed to provide microfinance services. The licensing process involved seeking input and opinions from FIU on the adequacy of AML/CFT policies before a licence is granted. *The control measure was rated **excellent**.*

Integrity of Business/Institution Staff

Interviews and surveys carried out did not come across major cases where staff members of MFIs had their contracts terminated due to violation of the Code of Conduct and Ethics. MFIs staff members are required to sign declaration of Secrecy and affirmed having read the Code of Conduct and Code of Ethics, for the respective MFIs they work for.

It was noted that during the period 2014 to 2018 Bank Supervision did not receive any report (through their normal due diligence process which entails police reports and credit reports of directors, senior staff members and shareholders) of convictions of MFIs for violations of AML/CFT requirements nor sanctioning or penalized for any administrative or criminal act related to breach of Code of Conduct which may cast doubt on their integrity. *The control measure was rated **very high**.*

AML Knowledge of Business/Institution Staff

The FIU has conducted AML training workshops for five MFIs, which aimed to raise their levels of AML knowledge and awareness. As such, the workshop has not been held for the rest of the MFIs, even though some of them took the initiative to acquaint them with AML knowledge.

MFIs conduct a large number of their payment transactions with banking institutions and hence are required to implement AML measures by their bankers. This greatly assists in increasing the levels of AML knowledge and implementation by MFIs staff. *The control measure was rated **medium**.*

Effectiveness of Suspicious Activity Monitoring and Reporting.

MFIs are currently not submitting STRs to the FIU. However, it has to be noted that most of the transactions handled by MFIs are of low risk, as they involve salaried, mostly civil servants, and the funds are transferred directly to borrower and repayments withdrawn at source, i.e. from employer. *The control measure was rated **medium low**.*

Availability and Access to Beneficial Ownership information

**This variable is also assessed by the National Vulnerability and Banking Sector Vulnerability Working Groups. Assessment ratings can be obtained from these Working Groups.*

Availability of Reliable Identification Infrastructure

The country has a national identity system and it is mandatory for every Zimbabwean to have the unique identity number which he/she is given at birth, by the Registrar General's office. It is also a requirement for every MFI client to present a minimum set of KYC documents which include a national identity document before they can open a loan account, hence the rating of close to excellent. *The control measure was rated **close to excellent**.*

Availability of Independent Information Sources

**The variable is also assessed by the National Vulnerability and Banking Sector Vulnerability Working Groups. Assessment ratings can be obtained from these Working Groups.*

OVERALL QUALITY OF AML CONTROLS WAS RATED TO BE **MEDIUM (0.47)**

FINAL RESIDUAL ML RISK OF THE MFI SECTOR WAS RATED TO BE **MEDIUM LOW (0.25)**

LIMITATIONS AND CHALLENGES IN THE SECTOR

The following were some of the challenges encountered during data collection:

- a) Non-attendance to some of the Module meetings by some stakeholders.
- b) Inadequate understanding of AML/CFT issues by some MFIs which adversely affected the quality of some of their responses. Other pressing commitments amongst members, which resulted in delays in submission of data, and in some cases, postponement of meetings.

The responses from MFIs were however not affected by these challenges and the results largely reflected a true and fair view of the risk assessment of the sector. In spite of these challenges, Module 6 members managed to obtain adequate data for assessment of the MFI sector.

PROPOSED ACTION PLAN

Informed by the World Bank Tool, Priority Ranking of AML Control, which need to be implemented or improved on, the following action plans need to be implemented:

- a) Conduct effective risk based AML supervision and oversight of the sector.
- b) Capacitate the Bank Supervision with knowledge of how to conduct risk based AML supervision, which involve conducting sectoral ML risk assessment and then risk based supervision.
- c) Conduct sectorial ML risk assessment.
- d) Develop risk based AML/CFT frameworks and manuals.
- e) Conduct AML/CFT awareness programmes for MFIs.

- f) Require MFIs to capacitate their Risk and Compliance Units, and start identifying and reporting STRs.
- g) FIU to develop sector specific Risk Based AML/CFT guidelines.

CONCLUSION

The assessment established that the AML controls in place are mainly the MLPC Act and supervisory institutions. However, effectiveness in implementing AML measures by both the MFIs and the supervisory authorities is still low, even though the sector was rated medium low.

A number of recommendations have been highlighted, which should be complemented with the need for collaborative training, workshops and increased AML/CFT inspections on the reporting institutions.

CHAPTER 8

VULNERABILITY OF MONEY OR VALUE TRANSFER SERVICES (MVTs)

KEY FINDINGS.

Assessment of the money or value transfer service providers (MVTs) sector, (herewith referred to as money transfer agencies – MTAs) noted that, in the absence of AML controls, the sector had an exposure to ML risk of medium high (i.e. inherent ML risk). Risk factors which were used to assess the inherent ML risk were: size of business; client base profile; use of agents; level of cash activity; and frequency of international transactions.

The assessment then took into consideration, the AML controls (i.e. intermediate variables) in place for the MTA sector, which prevents, deters and detect money laundering from occurring within or through the sector. **AML controls** in place for the MTA sector were noted to be **medium**.

The **residual ML risk** exposure of the sector was noted to be **medium**.

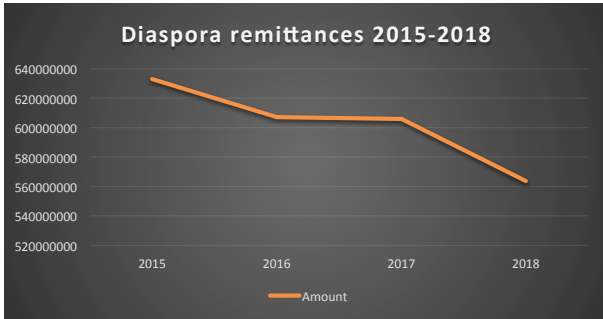
SECTOR OVERVIEW, BACKGROUND AND METHODOLOGY

MTAs are authorized and licensed, in terms of the Exchange Control Act, to carry out small value person to person cross border remittances. Regulations governing the licencing and operations of MTAs include:

- Exchange Control Guidelines for Authorized Dealers with Limited Authority (ECOGADLA) 1 OF 2015.
- Statutory Instrument 104 of 2015.

The sector has leveraged on the huge numbers of nationals found in the Diaspora who remit funds to their relatives and friends back home. Zimbabwe has the greatest proportion of nationals in Diaspora when compared to other countries in Southern Africa. According to the Business Report article, "62% Rise in African Migrants", dated 28 January 2019, "estimated figures suggest that as many as 3 to 5 million Zimbabweans are living in the diaspora, including South Africa, the UK and Botswana. More than half of these Zimbabweans are said to be in South Africa, which is also Zimbabwe's biggest trade partner. The article further stated that "The largest group in South Africa is that from Zimbabwe (Census 2011) with a total of 672308 of which 391992 were working in SA." It has to be noted, however, that a significant number of Zimbabweans in the Diaspora are not remitting funds via the formal channel, but through informal means, making such remittances difficult to account for purposes of economic planning and development. Additionally, informal remittance avenues are prone to being used by money launderers as they leave no trail of their transactions. This increases the vulnerability of MTA sector to ML risk.

Formal Diaspora remittances have been declining over the past 4 years due to the resurgence of informal remittances, use of the Hawala system and preferences by the senders to send goods instead of cash. Inbound funds transmitted through the ADLA system since 2015 are tabulated below:

Table 8.1: Diaspora Remittances 2015 - 2018

According to RBZ records, in 2018, outbound remittances totalling US\$23 million, was remitted out of Zimbabwe through only four MTAs, which are authorized to do so. More than 80% of the transfers were conducted on behalf of Zimbabwean parents sending fees for their children in foreign countries like South Africa, United Kingdom, Canada, and USA.

Bureau de Change business has not been viable (at least in the formal domain) due to the use of the multiple currency and failure to have own currency by the authorities. The 2019 monetary policy has since resuscitated the Bureaux de Change by ushering in the interbank market with a view to align or to have convergence of the interbank rate and the parallel market rates. The Bureaux are in the process of being licensed under the new framework but currently there are 26 registered bureaux under the new framework. However, during the period under review, there were no bureaux de changes due to factors highlighted above.

Findings and Rating of Previous NRA for the MTA Sector

During the 2015 NRA, the vulnerability to ML risks for MTA sector was

noted to be **medium (M), with a score of 0.43**. The sector conducted a lot of transactions which increased its exposure to ML risk. Remittance of funds from the Diaspora was done via international transfers, which were paid out in cash mostly, thereby also increasing the sectors' exposure to ML risk. There were, however, AML/CFT control measures in place, which include: AML/CFT regulations and guidelines; existence of a supervisory authority; and AML/CFT on-site and offsite inspections which were conducted on MTAs - which reduced the sector's vulnerability to ML risk.

DETAILED FINDINGS

Structural Risk Indicators.

Size of business and professions: *The vulnerability of the structural risk indicator was rated **medium high**.*

Reserve Bank records for the period under review states that formal inward remittances into Zimbabwe through MTAs amounted to US\$606 million (2017) and US\$564 million (2018), which was about 11% and 8% of global foreign currency respectively. Forex receipts in terms of ranking for 2018 were: 1. Export Proceeds, 2. Loan Proceeds, 3. Diaspora Remittances (MTAs), 4. Income Receipts, and 5. Capital Inflows.

According to the International Monetary Fund (December 18, 2018), unrecorded flows through informal channels are believed to be at least 50 percent larger than recorded flows. Zimbabwe is not spared from informal diaspora remittances, which also fuels the illegal forex market.

Client Base Profile: *Vulnerability of the structural risk indicator was noted to be **low (L)**.*

Sixty-eight percent (68%) of the formal forex inflows came from South Africa, United Kingdom, USA, Australia and Botswana, which are low risk jurisdictions according to FATF ratings. Botswana is however, under the list of "Other Monitored Jurisdictions". The rest of the world contributes 29%. The bulk of Diaspora funds come from relatives of

the recipients, who are living abroad. Most of recipients of Diaspora remittances are ordinary citizens who give reasons for the receipt of such funds as family upkeep, school fees payments, funeral expenses, medical expenses and housing construction. Most of the recipients are ordinary Zimbabweans. Outward remittances carried out by four MTAs mostly relate to parents from Zimbabwe sending fees to their children in foreign countries. In 2018, US\$23 million was remitted out of Zimbabwe through MTAs. Whilst the possibility of dealing with high risky customers is there, survey conducted on sampled MTAs revealed very few of such customers. High risky customers included politically exposed persons and foreigners.

Use of Agents: *Vulnerability of the structural risk indicator was noted to be **low (L)**.*

Money transfer agencies (MTA) in Zimbabwe do not use agents. Hence, the rating of **low was recorded**. One of the big MTAs by receipts is however running kiosks to big strategic shops. But these kiosks still remain under their purview, and are not agents.

Level of Cash Activity: *The vulnerability of the structural risk indicator was noted to be **high (H)**.*

In Zimbabwe, MTAs payouts are mostly cash based. The monies are usually for instant consumption. As of 2018, about 94% of inward formal remittances received through MTAs were paid out in cash and 6% paid into bank accounts and mobile e-wallets. Cash is an easy way of concealing proceeds of crime as, in most cases, will mark the end of an audit trail of proceeds of crime, i.e. cash does not leave an easy to follow trail. With the coming in of mobile money, some receipts are now beginning to receive their monies in the form of e-money. However, such modes of payment are very minute. Informal remittances, especially from South Africa, are also received in cash.

Frequency of international transactions: *The vulnerability of the structural risk indicator was noted to be **high (H)**.*

Transactions handled by MTAs start by funds being transferred from the Diaspora, through a highly secured web based system which links MTAs in Zimbabwe with their international partners abroad. In 2018, on average, MTAs processed about 346,057 formal person-to-person international wire transactions a day. International wire transfers offer a faster way of moving funds across borders, thereby making it easier for criminals to move funds across borders. Such transactions increase the vulnerability of the sector to ML risk, hence the rating of this structural risk indicator as high.

Inherent ML Risk rating for the MTA Sector was rated as medium high, with a score of **0,65**.

AML Control Measures

Overall, the quality of AML Controls was rated **medium high**, with a score of 0.58. The AML controls in place for the MTA sector, which were assessed, are as detailed below:

Comprehensive AML Legal Framework: *The control measure was rated **close to excellent**.*

MTAs are designated institutions in terms of Money Laundering and Proceeds of Crime Act, and require them to effectively implement AML measures using the risk based approach. The Act substantially meets provisions of the FATF 40 Recommendations. AML/CFT Guidelines for the sector were issued in 2012. Directives are issued to the MTAs as and when necessary. Additionally, international partners of MTAs have their own AML/CFT guidelines and checklists which their respective agencies are required to comply with in doing businesses. Failure to which, may lead to the international partners suspending or withdrawing their contract from the agent.

Effectiveness of Supervision/Oversight Activities: *The control measure was rated **medium**.*

MTAs are subject to onsite and offsite AML/CFT supervision and

monitoring by the Exchange Control Division, in liaison with the FIU. In 2014, the FIU conducted onsite inspections on five MTAs using the risk based approach. However, the risk based approach had not been developed to current levels being implemented in 2019. Exchange Control Division, as the supervisory authority, conducts offsite and onsite monitoring of MTAs which also cover AML compliance issues. In 2018, the Division conducted four (4) onsite inspections. However, these inspections were mainly prudential. MTAs submit weekly returns every Monday to Exchange Control, detailing all transactions for the preceding week. The Returns are not however, being used for AML purposes, rather for prudential purposes. Exchange Control have officers mandated to implement AML supervision, but there are not dedicated to that cause, as they also conduct prudential supervision, hence reducing their effectiveness on the ground.

Availability and Enforcement of Administrative Sanctions: *The control measure was rated **medium high**.*

Section 5 of the MLPC Act provides for civil infringements and imposition of civil penalties and other sanctions, and section 6, enforcement of civil penalties and accounting for proceeds thereof. Furthermore, section 5 of the Exchange Control Act provides for offences and penalties, for anyone contravenes or fails to comply with (i) any provision of this Act other than section eight; or (ii) the terms or conditions of any permit, authority, permission, direction, notice, order or other instrument made or issued under or by virtue of the Act. Enforcement of these provisions on defaulting MTAs have not been effectively implemented by both the FIU and Exchange Control. However, no violations, which warrant imposition of administrative sanctions; were noted during inspections conducted.

Availability and Enforcement of Criminal Sanctions: *The control measure was rated **medium high***

The MLPC Act criminalizes money laundering in terms of section 8. The Criminal Law Code criminalizes the various serious offences which

owners and clients of MTAs can commit. Some of these crimes are money laundering, fraud, corruption, and theft. Criminal Law Code brings together in one single statute all the major aspects of the Criminal Law. It codifies all the major aspects of the common law Criminal Law and incorporates many of the offences that were previously contained in various statutes. Also, the Criminal Procedure and Evidence Act [Chapter 9:07] consolidates and amends law relating to procedure and evidence in criminal cases.

It deals with: prosecution at public instance, private prosecutions, prescription of offences, arrests, search warrants and seizures, preparatory examinations, confirmation of extra-curial statements, bail, indictments and charges, procedure before commencement of trial, procedure after commencement of trial, procedures in respect of cases adjourned under section 54 of Magistrates Court Act, witnesses and evidence in criminal proceedings, discharge of accused persons, previous convictions and finger-prints, judgment on criminal trial, punishments, compensation and restitution, and pardon and commutation.

Availability and Effectiveness of Entry Controls: *The control measure was rated **excellent***

MTAs are regulated by the Exchange Control Division in terms of Statutory Instrument 104 of 2015 and ECOGADLA 1 of 2015 and Bureau de Change guidelines of 2019, which ensure that fit and probity controls, KYC and CDD measures are conducted before a business relationship is given license to operate. FIU issues AML/CFT certificates of compliance to new players in the MTA sector, which are valid for one year.

Integrity of Business/Institution Staff: *The control measure was rated **excellent***

Interviews and surveys carried out did not come across major cases where staff members of MTAs had their contracts terminated due to

violation of the Code of Conduct and Ethics. The staff also signed Oath of Secrecy and affirmed having read Code of Conduct and Code of Ethics, for the respective MTAs they work for. Onsite supervisions by Exchange Control during the period under review did not identify any acts and administrative or criminal sanctions which were levied against MTA staff members for violations committed due to absence of integrity. No MTAs were identified conducting other illegal business by Exchange Control. The MTAs have well-structured missions, values and visions which drive them in maintaining their high levels of integrity.

AML Knowledge of Business/Institution Staff: *The control measure was rated **medium high***

In years 2016, 2017 and 2018, the FIU conducted a total of four (4) AML training workshops for MTAs, which aimed to raise their levels of AML knowledge and awareness. Onsite inspections conducted by Exchange Control, and some, jointly with the FIU, revealed an average level of AML knowledge amongst staff. Interviews were held with staff during inspections, to ascertain their levels of AML knowledge. MTAs are also required to implement AML measures by their principals like Western Union and Mukuru. This greatly assists in increasing the levels of AML knowledge and its implementation by staff. Indications are that levels of AML awareness are increasing, as noticed by increase in STR submissions from MTAs.

Table 8.2: STR Submissions by MTAs

Year	2018	2017	2016	2015
STR Submitted	291	417	287	136

Effectiveness of Compliance Function (Organization): *The control measure was rated **medium***

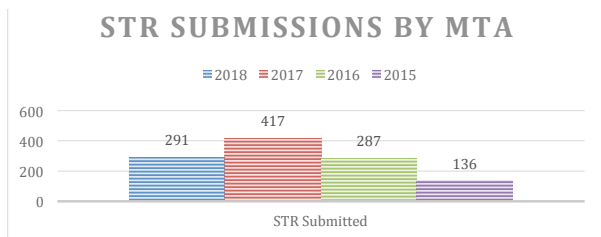
Onsite and offsite inspections conducted by Exchange Control, and some jointly with the FIU, assesses the effectiveness of the compliance

function of the MTAs. Inspections carried out during the period, revealed average levels of effectiveness of their Compliance Functions. Compliance Functions of MTAs mainly rely on the automated systems they get from their principles, for monitoring transactions. However, these tools are not specifically designed for monitoring transactions, but for processing transactions. Survey conducted revealed that all the MTAs have AML compliance officers who head the Compliance Functions of the institutions. They hold senior positions, and have access to information. Due to the small sizes of most MTAs, the compliance functions consists of the AML compliance officer only.

Effectiveness of Suspicious Activity Monitoring and Reporting: *The control measure was rated **medium low**.*

Since AML capacity building initiatives by the FIU commenced, together with onsite inspections, there has significant increase in the number of STRs submitted to the FIU, by MTs, as indicated by the chart below.

Table 8.3: STR Submissions by MTAs



However, statistics indicate that about 95% of the STRs come from one of the top 3 MTAs (by forex remittances). As such, levels of compliance with submission of STRs have not yet evenly spread across the MTA sector.

Availability of Reliable Identification Infrastructure: *The control measure was rated **close to excellent**.*

In Zimbabwe, almost everyone has unique identity number which he/she is given at birth, by the Registrar General. MTAs require every recipient to present his/her national identity or passport when collecting money. No one will be given his/her funds without the identity; hence the rating of close to excellent.

Final Residual ML Risk of the MTA Sector - Medium (0.56)

Having identified the inherent ML risk, the sector is exposed to - medium high (0,65), and then factored in the AML controls in place, which were rated medium (0,58), the residual ML risk for the MTA sector was noted to be medium, with a score of 0,56

RECOMENDATIONS.

Informed by the World Bank Tool Priority Ranking of AML Controls, the following action plans will be implemented, in efforts to reduce the exposure of the sector to ML risk:

- 1) Exchange Control should have dedicated officers who will conduct risk based supervision.
- 2) Sectoral ML risk assessment will be jointly conducted for the sector, by FIU and Exchange Control.
- 3) Exchange Control will be trained on risk based AML supervision.
- 4) Exchange control to start conducting risk based AML supervision.
- 5) Develop risk based AML/CFT frameworks and manuals and conduct sectorial risk assessments.
- 6) Conduct more AML/CFT capacity building programs for MTAs, on risk based approach to AML, and identification and reporting of STRs.

- 7) Require MTAs to capacitate their Compliance Functions, as informed by outcomes of their respective institutional ML risk assessments.
- 8) Exchange Control should acquire an online, real time transactions monitoring system, which is useful in monitoring unusual transactions.

CHAPTER 9

CAR DEALERS SECTOR

KEY FINDINGS OF THE SECTOR

The car dealers sector was rated **medium high**, to its exposure to ML risk. Data collected was used to determine inherent ML risk and the AML controls within the sector, using the World Bank ML risk rating tool. Relevant information was collected from various key regulatory, ministerial, supervisory, associates, and online sources. Ratings for the structural/inherent ML risk was noted to be medium high with a rating of 0,65. Availability of AML/CFT control measures, was noted to be medium low, with a rating of 0,25. Rating for the AML controls are as tabulated below:

Figure 9. 1 General input variables and AML/CFT controls for the Car Dealers Sector.

INPUTS - GENERAL INPUT VARIABLES/AML CONTROLS	
Comprehensiveness of AML Legal Framework	0.7
Effectiveness of Supervision/Oversight Activities	0.2
Availability and Enforcement of Administrative Sanctions	0.5
Availability and Enforcement of Criminal Sanctions	0.7
Availability and Effectiveness of Entry Controls	0.2
Integrity of Business/ Profession Staff	0.3
AML Knowledge of Business/ Profession Staff	0.3
Effectiveness of Compliance Function (Organization)	0.1

Effectiveness of Suspicious Activity Monitoring and Reporting	0.1
Availability and Access to Beneficial Ownership information	0.5
Availability of Reliable Identification Infrastructure	0.9
Availability of Independent Information Sources	0.6

As part of measures to increase the adequacy and effectiveness of implementing AML controls for the car dealers sector, recommendations are that the default supervisory authority, the FIU, should capacitate car dealers on their role in combatting ML, which include know your customer, monitoring of transactions, identification and reporting of suspicious transactions reports to the FIU. The FIU should undertake a sectoral ML risk assessment of the sector and start conducting risk based AML monitoring and supervision. Urban and rural councils should also start licensing car dealers.

SECTOR OVERVIEW

Zimbabwe's motor industry is dominated by car dealers who buy and sell second hand vehicles (grey imports) which are mainly imported from Japan, UK, USA, Singapore and South Africa. According to Zimbabwe National Road Administration, as at September 2014, the country's vehicle population stood at 1,2 million, of which more than 85% of the cars are imported as second hand cars. A greater proportion (more 80%) of Zimbabwe's vehicle population is found in towns and cities. There are however, other few players who import and sell new vehicles, like, Toyota Zimbabwe, Amtec, Croco Motors, Nissan Clover, Zimoco and Autoworld. There has, however, been an increase in imports of high value, luxurious vehicles, by prominent people, some of whom, are politicians, which has led to questions being raised on their

source of funds. During the period under review, Zimbabwe did not have motor vehicle assembling/manufacturing companies. One of the companies which used to manufacture cars, Willowvale Mazda Motor Industries, (WMMI) stopped production in 2012 when production plunged to below 4 000 from a peak of 18 000 vehicles per year in 1997. A combination of hostile factors which included harsh economic environment, reduction of protective duties, as well as, the removal of exchange control safeguards, left the thriving automobile company on its knees. Cheap second hand cars imported, coupled with dwindling disposable incomes, forced people to buy the second hand vehicles. The motor vehicle industry is vulnerable to money laundering at all the three stages of the ML, namely: placement, layering and integration. Car dealers are frequently exploited by customers who purchase motor vehicles in order to disguise unlawful origin of their dirty money.

A number of cases have been reported, world over, where car dealers were arrested and convicted of facilitating money laundering for tax evaders, fraudsters, drug dealers and other criminals, through purchase of and/or sell of motor vehicles. February 2019: in San Antonio, United States of America (USA), a car dealer Karen Mgerian, who sold luxury vehicles, laundered more than half a million dollars as part of an undercover sting, and told agents he had the ability to launder millions more inside and outside the USA. May 2019, Jerry Flaherty a car dealer in the city of Mason in United States of America pleaded guilty to money laundering after he fraudulently recorded a \$25,000 cash transaction as \$15,000 and put the title to the car under someone else's name.

The car dealers sector of Zimbabwe is not immune to these threats of ML, and as such, all car dealers ended up being designated as reporting entities in terms of the MLPC Act, after it was rated as highly vulnerable to ML risk, during the 2015 NRA.

During the 2015 NRA, the sector was noted to be highly vulnerable to money laundering risk, with a score of 0.75. Some of the key findings during the 2015 NRA were that there was no designated supervisory

regulatory authority; car dealers were not regulated for AML/CFT compliance and no guidelines had been issued to the sector. There was little appreciation by law enforcement officers on the connection of money laundering to other crimes such as motor vehicle smuggling. The sector was not yet implementing any AML measures, which include: customer identification; beneficial ownership identification; monitoring of transaction, identification and reporting of suspicious transactions.

The current assessment (2019 NRA) of the car dealer's sector's vulnerability to ML relied on information that was collected by stakeholders who formed the cluster that was set up. The information was used to rate the ML risk factors, which determined the final outcome of the sector's inherent ML risk. AML controls were also rated using the information obtaining on the ground, in as far as AML documentation and implementation is concerned.

The World Bank Tool was then used to systematically compute the ratings. Stakeholders of the car dealers cluster consisted of officials from the: Financial Intelligence Unit; CVR; ZIMRA; Croco Motors; City of Harare; Urban Councils Association of Zimbabwe; and ZRP Vehicle Theft Squad. About 90% of the data used to assess the vulnerability of the sector to ML risk was obtained from these stakeholders. The rest was collected from online sources and intelligence gathering.

Meetings were conducted with stakeholders; and data was gathered and submitted to secretariat. The period covered during data collection was year 2017 and 2018. A survey was carried out on a sample of car dealers located in Harare, where more 50% of car dealers in Zimbabwe, are located. A questionnaire was used to collect data from them, which was useful in determining risk indicators such as: size of business; level of cash usage; and client profile. The questionnaire composed of both open and closed end questions depending on the variable being measured. Most questions were closed to encourage a higher response rate and also easy coding and analysis of the data. Quantitative and

qualitative analysis of the data was undertaken and results used to justify the ratings.

DETAILED FINDINGS

Structural Risk Indicators

Size of Business: *The vulnerability of the structural risk indicator was rated **medium low**.*

Volume of business was used to assess this risk factor, i.e. the total number of car imports. The total number of vehicles imported into Zimbabwe in 2017 and 2018 were 156 119, which paid a combined customs duty of \$562, 699, 994,44, representing 27% of the total customs duty collected by ZIMRA during the period under review. However, it has to be acknowledged that some car importers evade paying import duty as they connive with customs officials to undervalue the vehicle and be exempted altogether.

Client Types: *the vulnerability of the structural risk indicator was rated **medium**.*

Most of the clients who import motor vehicles are individuals who are both salaried and non-salaried. They use USD cash in buying the vehicles. In most cases, the sources of these monies are unknown as they would have not been obtained from banks, which have limited forex. As noted in the World Bank working paper titled, 'Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?', it stated that more than 60% of the Zimbabwean economy is informal, second only to Bolivia's 62.3%. Most of the car dealers in Zimbabwe are found in this informal sector. It was also observed that customers who buy motor vehicles on the second hand car dealers were mostly individuals (about 60%) who would have made some savings from their salaries or obtained loans from employer or banks, or microfinance institutions. About 5% was made up of corporates. These type of customers fall under the category of low risk customers.

About 25% consist of individuals who claim to be self-employed, whose source of funds is difficult to verify. Such clients fall under the category of high ML risk. The country has been witnessing an influx of luxurious, expensive motor vehicles, whose owners are usually prominent people, who are politically connected, whose source of funds is not very clear. These customers are highly risky.

Level of Cash Activity: *the vulnerability of the structural risk indicator was rated **high**.*

A survey of 120 car dealers was carried out, and noted that all of them were importing and selling motor vehicles in United States Dollars cash. In recent years, Zimbabwe has been facing a shortage of foreign currency, banks have not been allocating forex for car imports, yet they are car imports every day; implying that USD cash, sourced from the illegal forex market, is being used to import motor vehicles. Sellers are preferring/demanding payment in USD cash. New vehicles are being purchased in United States Dollars with the duty & VAT also being paid in United States Dollars cash. As such level of cash usage in the sector was noted to be high.

Use of agents: *The vulnerability of the structural risk indicator was rated **high**.*

Agents are mostly used in the importation and registration of the motor vehicles. Some of the agents are registered with ZIMRA and a significant number of them are not. The Shipping and Forwarding Agents' Association of Zimbabwe (SFAAZ), an association which represents shipping, freight and forwarding, customs clearing, bondage warehouse operators, in-house clearing as well as importers and exporters currently has a membership of over 100 reputable companies. However, the majority of agents, mostly informal ones, who are not even registered as legal companies, constitute the bulk of agents who assist car importers with customs clearance of their motor vehicles.

Frequency of International Transactions: *The vulnerability of the*

*structural risk indicator was rated **high**.*

Zimbabwe does not have car manufacturers, and all cars are imported. As such, there is transfer of funds across borders. Most vehicles are purchased from Japan, Singapore, South Africa and UK in that order. Funds are wire transferred to these countries, before the cars are shipped to Zimbabwe. According to ZIMRA, locals transferred out of the country, an estimated US\$3 billion on motor vehicle imports – predominantly from Japan – in the eight-year period from 2009 (The Sunday Mail, 14 May 2017).

Difficulty in tracing the transaction records: *The vulnerability of the structural risk indicator was rated **difficult/time consuming***

The sector is very difficult to obtain transaction records as car dealers do not usually maintain proper records, as a way of evading tax, and because of their demand for payment in USD cash, which they do not bank. Information on the buyer's source of funds is not even collected as they are of the view that asking for such information might drive the customer away.

Use of the business/profession in fraud or tax evasion schemes: *The vulnerability of the structural risk indicator was rated as **existing**.*

Tax Evasion: prevalence of cases involving car importers caught trying to evade tax is quite rampant. During the years 2017 and 2018, about 52 cases were recorded by ZIMRA, where individuals attempted to evade paying duty by declaring their vehicles as of South African origin and then claim preferential rates of duty. Methods of evading payment of duty involve: undervaluation; smuggling and then fraudulent registration of the vehicle at Central Vehicle Registrar; false declaration of the importing the car as a temporary import yet the car ends up being sold.

Overall Rating for the Inherent Vulnerabilities: medium high **(0.65)**

Control Measures.**Comprehensiveness of AML legal framework** *was rated high (0,7)*

The sector has been designated as a non-financial business and profession in terms of the Money Laundering and Proceeds of Crime Act. The MLPC Act substantially conforms to FATF 40 Recommendations as required under technical compliance.

Effectiveness of Supervision *control measure was rated very low (0,2)*

The sector is not formally regulated by any statutory body, which in most cases will be the ideal/default supervisory regulatory authority. As provided for under section 3(2) of the MLPC Act, the FIU, in cooperation with a competent supervisory authority (if there exist one), bears the primary and general responsibility for ensuring compliance with this Act, by car dealers. The FIU, however, is yet to implement its supervisory role for this sector, due to resource constraints.

Availability and Enforcement of Administrative Sanctions *The control measure was rated medium (0,5)*

The variable was rated medium low as the sector has been designated in the act, hence, all administrative sanctions applicable to DNFBPs also applies to car dealers. Since there has been no monitoring and supervision of the sector, enforcement has not been undertaken.

Availability and Enforcement of Criminal Sanctions: *The control measure was rated high*

The MLPC Act criminalizes money laundering in terms of section 8; as such, any car dealer or any of its staff, and customers, who commit the offence of money laundering, would be penalized in terms of the Act. The Criminal Law Codification Act criminalizes the commission of various serious offences which owners and clients of car dealers can commit. Some of these crimes are money laundering, fraud, corruption, and theft. Also, the Criminal Procedure and Evidence Act [Chapter 9:07]

consolidates and amends laws relating to procedure and evidence in criminal cases.

It deals with: prosecution at public instance, private prosecutions, prescription of offences, arrests, search warrants and seizures, preparatory examinations, confirmation of extra-curial statements, bail, indictments and charges, procedure before commencement of trial, procedure after commencement of trial, procedures in respect of cases adjourned under section 54 of Magistrates Court Act, witnesses and evidence in criminal proceedings, discharge of accused persons, previous convictions and finger-prints, judgment on criminal trial, punishments, compensation and restitution, and pardon and commutation. As a result of the comprehensiveness of the legal framework for the criminalization of offences in the car dealers sector, the rating for this control measure was noted to be high.

Availability and effectiveness of entry controls - *The control measure was rated **very low**.*

The sector is not regulated. The only requirement to run a car dealer is to apply to Council for a piece of land and once allocated, you can commence operations. There are no licensing requirements to be registered as a car dealer. Some of the car dealers do not even have registered companies, except for the big car dealers like Toyota Zimbabwe.

Integrity of Business / Profession Staff - *The control measure was rated **low**.*

Interviews and surveys carried out noted too much informal behaviors by the second car dealers (who constitute the greater number of car dealers), who are suspected of being involved in illegal activities. Some of the car dealers have become unwittingly involved as “innocent agents” on behalf of criminals seeking to use their products and specialized knowledge and skills. Owners of the car dealers do not make their staff members sign declaration of Secrecy and nor Code of

Conduct or Code of Ethics. In 2017 – 2018, ZIMRA had 52 cases of car dealers it arrested for evading tax.

AML Knowledge of Business/ Profession staff - *The control measure was rated **low**.*

Levels of AML knowledge within the sector were noted to be low. The sector has not been trained on AML and their exposure to ML risk. The little knowledge they have was obtained from internet readings, social platforms and peer discussions.

Effectiveness of Compliance Function - *The control measure was rated **close to nothing***

As the sector has not been capacitated, and the FIU has not yet engaged them, the car dealers do not have AML compliance department/officers. From the survey conducted, it was noted that they are not even aware of the requirement.

Effectiveness of Suspicious Activity Monitoring and Reporting - *The control measure was rated **close to nothing***

Car dealers are yet to report suspicious transactions as they not even aware of the requirement. Discussions with some of them noted that, going forward, we might face some reluctance from the car dealers, to report STRs, as they were of the view that it would amount to exposing their clients, and not good for business.

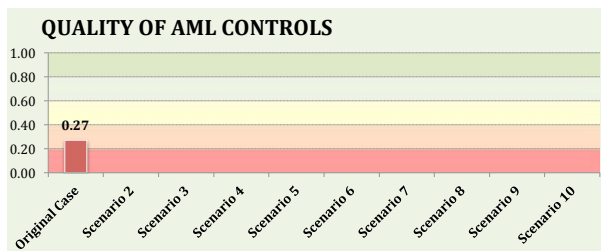
Availability of reliable identification infrastructure - *The control measure was rated **close to excellent**.*

The country has a robust national identity system, and it is mandatory for every Zimbabwean to have the unique identity number which he/she is given at birth, by the Registrar General's office.

Overall Quality of AML Controls

The AML controls for the sector were overall rated, **medium low (0.27)**.

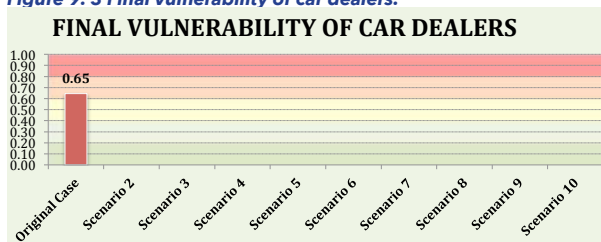
Figure 9.2 Quality of AML Controls in the Motor dealers Sector.



Residual/Final Vulnerability

Residual ML risk of the sector was noted to be **medium high**, with a score value of 0.65.

Figure 9.3 Final vulnerability of car dealers.



Proposed Action Plan

Informed by the World Bank Tool, the Priority Ranking of AML Controls which need to be implemented or improved on, the following action plans need to be implemented:

- Raise AML awareness within the car dealers sector.

- b) FIU should start conducting risk based AML monitoring and supervision of the sector.
- c) Sector specific Risk Based AML Guidelines should be developed by the FIU.
- d) Require car dealers to appoint AML Compliance Officers, and start identifying and reporting STRs.
- e) Appoint regulatory authority which will license car dealers.

It is important that the regulator (FIU) engage car dealers and capacitate them on AML requirements, so that they can start contributing to the fight against money laundering.

CHAPTER 10

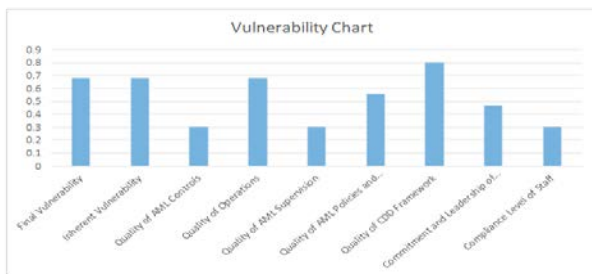
VULNERABILITY OF ACCOUNTANTS AND AUDITORS SECTOR

KEY FINDINGS FOR THE SECTOR

The report represents an analysis of the Accountants sector's vulnerability to Money Laundering (ML), as well as to evaluate whether mitigatory measures in place are commensurate with the risks identified for the Accountants sector in Zimbabwe. Analysis of this sector was done through meetings with sector players, that is Professional Accountants Organizations (PAOs) and the sector regulator, Public Accountants and Auditors Board (PAAB).

The final vulnerability for the Accountants sector, was rated as medium high, mainly because of poor quality Anti-money laundering (AML) controls, and lack of resources dedicated to the implementation and supervision of AML/CFT regime in the sector. The overall Accountants sector vulnerability to ML was rated to be medium high (MH), at a score of **0.68**, as shown in Table 9.1 below:

Table 10. 1 . Accountants Sector Final Vulnerability to Money Laundering



SECTOR BACKGROUND

The accounting profession in Zimbabwe is comprised of three different groups, offering the following products and/or services; accounting, auditing, tax consultancy and business advisory.

The first group of accountants is called Professional Accountants in Public Practice. Professional Accountants in Public Practice are those accountants, who by operations of the Public Accountants and Auditors Act [Chapter 27:12] (PAA Act), are mandated to offer their services to all publicly listed companies in Zimbabwe. The PAA Act makes it a legal requirement for Professional Accountants in Public Practice to be registered with the Public Accountants and Auditors Board (PAAB). The PAAB is the statutory regulatory body for accountants and auditors in Zimbabwe, and it was established by The Public Accountants and Auditors Act (Chapter 27:12).

The second group is called Professional Accountants in Business, and are members of one or more of the eight Professional Accountants Organisations (PAOs), in Zimbabwe, namely; the Zimbabwe branch of the Association of Chartered Certified Accountants (ACCA), the Zimbabwe branch of the Chartered Institute of Management Accountants (CIMA), the Institute of Chartered Accountants of Zimbabwe (ICAZ), the Institute of Chartered Secretaries and Administrators in Zimbabwe (ICSAZ), the Institute of Certified Public Accountants of Zimbabwe (ICPAZ), the Institute of Certified Tax Accountants of Zimbabwe (ICTAZ), the Institute of Administration and Commerce of Zimbabwe (IACZ), and the Southern Africa Association of Accountants (SAAA). The PAA Act does not make it mandatory for Professional Accountants in Business Practice to be registered with the PAAB, as long as they do not offer their services to publicly listed companies.

The last group is composed of accountants who graduate from the various private colleges, government polytechnics and universities, who offer accounting services to private businesses and individuals, or who are employed as accountants. These accounting professionals are

neither a member of the PAOs, nor registered with the PAAB. They do not have professional identity and are not regulated. This sector mainly serves the small-to-medium entities (SMEs), offering tax and accounts compilation services, including company registration.

Vulnerability of the Accountants sector was assessed, based on the strength of factors such as comprehensiveness of AML/CFT laws, enforcement mechanisms, penalties involved, effectiveness of monitoring and supervision by the regulatory authority (PAAB), as well as AML knowledge of staff among other variables. The assessment was conducted using guidance from the World Bank Tool.

The working group used both quantitative and qualitative methods to collect data for the assessment of this sector. The quantitative approach gave the statistical data and where there was insufficient data, the qualitative approach was used to fill the gap.

Data for the sector was collected through the following mechanisms; for quantitative data, excel templates were distributed to various players to populate. For qualitative variables, the ratings were decided in the meetings that were held with sector representatives.

DETAILED FINDINGS

Control Variables

Comprehensiveness of AML Legal Framework: Rating - Close to excellent (0.9)

The MLPC Act Chapter (9:24) covers all essential AML/CFT obligations but still needs some minor enhancements. The PAAB is designated as a competent supervisory authority, thus mandated to supervise the sector for AML/CFT compliance. The PAAB, which is the Regulatory Authority for the accounting sector in Zimbabwe, monitors and enforces compliance with the prescribed accounting and auditing standards, in terms of Statutory Instrument 41 (SI 41) of 2019, which standards include the International Code of Ethics for Professional Accountants

(including Independence Standards). These standards, however, cover mostly prudential supervision and do not specifically provide for AML/CFT monitoring and supervision.

The PAAB has powers to set accounting and auditing standards appropriate to the Zimbabwean environment, and to the continued acceptance of audited financial statements originating in Zimbabwe. These standards do not extensively cover specific AML/CFT issues except the reference to ML in The International Ethics Standards Board for Accountants (IESBA)'s, International Code of Ethics for Professional Accountants (Including Independence Standards) and its pronouncement on Responding to Non-Compliance with Laws and Regulations (NOCLA).

Effectiveness of Supervision/Oversight Activities: Rating - Low (0.3)

The PAAB carries out inspections on accounting and auditing firms. However, these inspections are mainly prudential and do not explicitly cover AML/CFT issues. The major influence of the rating was that PAAB has limited human resource capacity, as it does not have specific AML/CFT inspectors. The AML/CFT knowledge of the sector is thus low.

Availability and Enforcement of Administrative Sanctions: Rating - Low (0.3)

The PAAB Act (Section 34) has sanctions and penalties prescribed for violation of the professional code of conduct. However, these sanctions are not specific to AML/CFT.

Availability and Enforcement of Criminal Sanctions: Rating - Close to Nothing (0.1)

The PAA Act (Section 38) criminalizes violation of the PAA Act by unregistered persons with specific sanctions. However, sanctions that criminalize ML/TF are not present in the PAA Act.

Availability of Entry Controls: Rating - Close to excellent (0.9)

Entry into the accountancy profession requires proper identification documents and screening by both the PAOs and the PAAB.

Integrity of business/profession staff: Rating - Very high (0.8)

Integrity of staff was rated very high because of the high professional standards required to be observed by members of the accountancy profession and the close monitoring by both the PAOs and the PAAB.

AML Knowledge of Business/Profession Staff: Rating - Low (0.3)

Professional Accountants Organizations offer Continuous Professional Development (CPD) training, which also cover AML/CFT issues. The training, however, is currently not mandatory, thus not all professional accountants will gain AML/CFT knowledge. More so, AML/CFT issues are not extensively covered in the trainings.

Effectiveness of Compliance Function (Organization): Rating - Low (0.3)

Accountants do not have compliance programs specific to AML/CFT and the PAAB is not well resourced to carry out thorough AML/CFT inspections, checking the adequacy of accountants' compliance functions.

Effectiveness of Suspicious Activity Monitoring and Reporting: Rating - Very Low (0.2)

Since 2014 there has not been any STR that has been reported to the FIU from the accountancy sector.

Availability and Access to Beneficial Ownership Information: Rating - Very High (0.8)

The rating is high because accountants and auditors are exposed to beneficial ownership information, when dealing with their clients. They can acquire identification documentation, bank account details,

company incorporation documentation, property and asset ownership details for beneficial owners, as part of their work.

Availability of Reliable Identification Structure: Rating - Very High (0.8)

This variable was rated very high because the PAOs and PAAB utilize proof of identification, from the National Identification system, which is quite robust. There is, however, room for improvement, with regards entry into the sector, the regulator can also use police clearance and Financial Clearing Bureau (FCB), to vet professionals at registration stage.

Availability of Independent Information Sources: Rating - Very High (0.8)

The variable was rated very high because the accountants sector uses a referral system when registering professionals. Accountants/Auditors who wish to be registered by PAAB must be recommended by their PAOs. Members of PAOs are in turn accepted into membership on recommendation by existing members of the profession. However, just like the availability of reliable identification infrastructure variable, the sector can also make use of information from the police as well as the Financial Clearance Bureau.

Inherent Vulnerabilities

Total Size/Volume of the Business/Profession: Rating - High

The accountants and auditors' profession in Zimbabwe is regulated by the PAAB and all professional accountants for public practice should be registered with this Board. There is, however, no legal provision to enforce registration with the PAAB, for accountants and auditors, offering accounting and auditing services to private business, individuals and Not for Profit Organizations. In Zimbabwe, Professional Accountants in Public Practice and Professional Accountants in Business currently total 4 826.

It is estimated, based on the number of accounting and auditing students, produced from Zimbabwe's tertiary education institutions, that about 1 000 accountants, are not registered with the PAAB or PAOs. These are accounting and auditing graduates, from the various universities, colleges and polytechnics, including holders of certificates and diplomas in accounting, from international training institutions like CITY AND GUILDS and PITMAN. This group of unregistered persons, practicing as accountants and auditors, poses the greatest risk on money laundering issues, since they are not regulated.

Client Base Profile: Rating - Medium Risk

The market players interact with a wide range of clients and some of these are high risk individuals such as Politically Exposed Persons (PEPs) and High net worth individuals. However, most of the risk lies with services offered by unregistered persons, who may easily be targeted by criminals involved in ML/TF activities.

Level of Cash Activity Associated with the Business/Profession: Rating - Low

The work of professional accountants is not normally associated with handling large amounts of cash.

Use of agents in Business/Profession: Rating - Low

In most instances, market players engage people from other professions and it is difficult to classify them as agents. The use of agents might come in the form of auctioneers when disposing of assets from a company. However, such cases are not prevalent.

Possible anonymous use of the product in the business/profession: Rating - Not Available

Accountants and auditors who are registered with the PAAB are required to disclose their full names and registration number on the face of the financial statements they have prepared and/or audited.

However, this only applies to public interest entities (PIEs).

Difficulty in tracing transaction records: Rating - Easy to Trace

Accountants and auditors who are registered with the PAAB are required to disclose their full names and registration number on the face of the financial statements they have prepared and/or audited. However, this only applies to public interest entities (PIEs).

Existence of ML typologies on the abuse of the business/profession: Rating - Exists but Limited

Typologies are available to accounting and auditing members that are part of international networks, such as ACCA, CIMA and ICAZ. Typologies are shared through workshops and conferences. However, locally, typologies are non-existent.

Use of the business/profession in fraud or tax evasion schemes: Rating - Exists but Limited

Professional accountants are bound to comply with laws and regulations, including tax law, and to report any non-compliance by their clients to authorities under NOCLA. The risk exists in the operation of unregistered persons who are offering tax consultancy services to the market. Our existing tax law is porous in that, it allows such unregistered persons to act as representative taxpayers (the face of the company for tax purposes) without restrictions.

Non face to face use of the product in the business/profession: Rating - Available but Limited

Vulnerability is limited because a number of procedures have to be carried out and some of them involving meeting with the client. Client acceptance procedures have to be seriously considered under external audits. After clearance, a decision has to be made on whether or not to accept to offer the Accounting or Auditing service. At this stage engagement letters are made whose contents may entail face to face

discussions between the professional and the client. Vulnerability increases if these engagement letters are sent either by post or email and responded to and discussed in the same mode of communication. With reference to use of product, some work can be done without face to face interaction with the client. The processing of tax returns can be done electronically through the use of e-filing as long as the relevant information is made available. This may also apply to other statutory returns.

RECOMMENDATIONS

Based on the results obtained from the rating of control variables and inherent vulnerability variables, the priority areas that the sector should focus on, are summarized in table 9.2 below;

Table 10. 2 Priority Ranking for the Accountants Sector

Variable	Priority Ranking
AML Knowledge of Business/Profession staff	1
Effectiveness of Supervision/Oversight Activities	2
Effectiveness of the Compliance Function	3
Effectiveness of Suspicious Transaction Monitoring and Reporting	4
Availability and Enforcement of Criminal Sanctions	5
Availability and Enforcement of Administrative Sanctions	6

In order to minimize the vulnerability emanating from the Accountants sector, the following recommendations are made in order of their priority;

- The sector should be provided with AML/CFT regulations/guidelines, as well as training and workshops for the sector

employees, so as to improve AML/CFT knowledge. AML/CFT training should be mandatory to all accountants and auditors.

- b) The profession should have mechanisms for effective STR reporting and monitoring systems.
- c) There should be a twinning arrangement between all institutions providing accounting qualifications and PAAB, to capture all aspiring professional accountants and auditors. PAAB should maintain its statutory register, containing all accounting and auditing graduates and all qualified professional accountants and auditors. All companies, organizations, both private and public, and individuals in Zimbabwe, should be obliged by law, to hire professional accountants or auditors, as employees to do all accounting and auditing roles. The PAA Act (Chapter 27:12), Companies Act (Chapter 23:04), Incomes Taxes Act (Chapter 23:06), Public Finance Management Act (Chapter 22:19), Public Entities Corporate Governance Act (Chapter 10:31) should be amended to incorporate these recommendations.
- d) Obligations laid out in the Companies Act, Incomes Tax Act, PAAB Act are more directed to public listed companies. However, we recommend that for AML/CFT measures to be effective, the private sector must also be covered by these legal provisions.
- e) The PAAB should be capacitated in terms of human and capital resources to effectively implement its AML/CFT supervision and compliance obligations.

Table 10.3 General input variables and AML Controls.

INPUTS - GENERAL INPUT VARIABLES/AML CONTROLS	
Comprehensiveness of AML Legal Framework	0.9
Effectiveness of Supervision/Oversight Activities	0.3
Availability and Enforcement of Administrative Sanctions	0.3
Availability and Enforcement of Criminal Sanctions	0.1
Availability and Effectiveness of Entry Controls	1
Integrity of Business/ Profession Staff	0.8
AML Knowledge of Business/ Profession Staff	0.3
Effectiveness of Compliance Function (Organization)	0.3
Effectiveness of Suspicious Activity Monitoring and Reporting	0.2
Availability and Access to Beneficial Ownership information	0.9
Availability of Reliable Identification Infrastructure	0.8
Availability of Independent Information Sources	0.8
OUTPUTS/ASSESSMENT RESULTS FOR INTERMEDIATE VARIABLES	
DNFBP BUSINESS/PROFESSION FINAL VULNERABILITY	0.68
DNFBP BUSINESS/PROFESSION INHERENT VULNERABILITY	0.68
QUALITY OF AML CONTROLS	0.30
Quality of Operations	0.30
Quality of AML Policies and Procedures	0.56
Quality of CDD Framework	0.80
Compliance Level of Staff	0.30
Quality of AML Supervision	0.30
Commitment and Leadership of Managements	0.47

CHAPTER 11

VULNERABILITY OF PRECIOUS STONES AND PRECIOUS METALS

KEY FINDINGS FOR THE SECTOR

The overall ML Risk for dealers in Precious Stones and Precious Metals was rated as Medium High, with a score of **0.61**.

In assessing the sector, data collected was used to determine inherent ML risk and the AML controls within the sector, using the World Bank ML risk rating tool. Relevant information was collected from the Ministry of Mines and Mining Development, Fidelity Printers and Refineries, Minerals Marketing Corporation of Zimbabwe, dealers in Precious Stone and Precious Metals and from secondary sources of data.

Ratings for the structural/inherent ML risk was noted Medium High, and the availability of AML/CFT control measures, were noted to be very high at **0.8**.

SECTOR OVERVIEW

The Precious Stones and Precious Metals sector in Zimbabwe plays an important role in economic and social development of the country. The mining sector provides formal employment to over 45 000 people and over a million people get their livelihood from the sector. In 2018, the mining sector earned **USD6.7 billion** and precious stones and precious metals contributed **USD5.1 billion** and this translates to **77%** of the total mining sector earnings. The mining sector earned **USD1.7 billion** and **USD1.8 billion** in 2017 and 2018 respectively. The assessment of the sector for ML risk was conducted by experts from both public and private sectors. The mining sector is the main stay of the Zimbabwe economy, being the major foreign currency earner.

During the 2015 NRA, it was noted that the sector was prone to ML risk and required to have more resources channelled towards effective control of the sector. Money laundering risk of misusing dealers in precious stones and metals is due to the high value, relative small sizes of parcels which facilitate concealment and transport, easy trading around the world and store of value which does not change.

Findings & Ratings in the 2015 NRA

During the 2015 NRA, the sector's susceptibility to money laundering risk was rated as Medium, with a score of **0.55**. Some of the key findings during the 2015 NRA were as follows;

- a) Need for government and private sector to channel more resources towards the implementation of AML/CFT requirements. Government to be transparent in handling mining affairs in order to build public confidence to comply with regulatory requirements.
- b) Conduct AML/CFT training and awareness to all staff on requirements of MLPC Act and guidelines and enforce AML/CFT measures in the sector.
- c) Improved manpower and budgetary allocations, which will see enhanced staff deployment to plug the porous exit points.
- d) Ministry of Mines and Mining Development has decentralized into provinces, in order to improve supervision and monitoring of mining activities and recruitment of additional staff has been implemented.
- e) Streamline diamond producers to enhance security and augment security at all mines and milling centers.
- f) Conduct extensive intelligence gathering, surveillance, searches and road blocks and the manning of precious stones and metals producers, mills and elution plants, to prevent smuggling. Compel dealers in precious stones and metals to implement enhanced CDD measures.

Stakeholders for the 2019 Risk Assessment Process.

Stakeholders for dealers in precious stones and metals consisted of officials from the:

- a) Ministry of Mines and Mining Development.
- b) Financial Intelligence Unit.
- c) Fidelity Printers and Refineries.
- d) Mineral Marketing Corporation of Zimbabwe.
- e) Diamond Producers (Zimbabwe Consolidated Diamond Company and Murowa Diamonds).
- f) Platinum Group of Metals Producers (Mimosa, Zimplats, Unki, Karo Resources, Todal, and Great Dyke Investments).
- g) Zimbabwe Jewellery Association of Zimbabwe.
- h) Chamber of Mines.
- i) Small Scale Miners Association (ZMF).

DETAILED FINDINGS

Structural Risk indicators

Size of Business

There are about 29 000 gold mine title-holders in the country. The majority (over 80%) of the title-holders are artisanal miners/small-scale miners, and the rest are large-scale miners. In 2018 about 65% of total gold production in the country was estimated to be coming from small-scale miners, with 35% from the medium to large-scale miners.

There are two (2) diamonds producing companies and both producers are Kimberly Process Certification Scheme (KPCS) compliant. In line with the government of Zimbabwe's thrust for value addition and beneficiation, 10% of precious stones and metal produced are earmarked for the local industry. Pursuant to the government policy, there are **20 registered Precious Stones Cutting and Polishing**

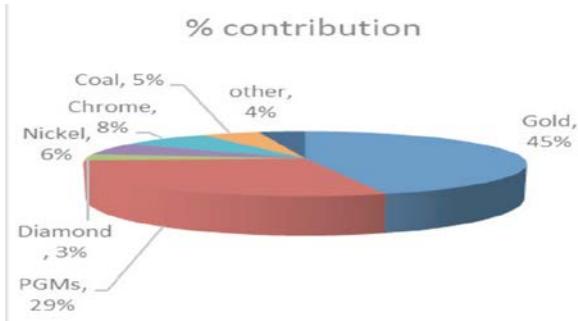
operators and **42 precious metals dealers or Jewellers**. The dealers in the value addition and beneficiation segment obtain their stocks from Fidelity Printers and Refineries and Minerals Marketing Corporation of Zimbabwe for Precious Stones Cutting and Polishing and Jewellers, respectively.

The Platinum Group of Metals (PGMs) sector currently consists of seven (7) registered dealers. All of the producers are large scale operators, namely; Mimosa, Zimplats, Unki, Karo Resources, Todal, Great Dyke Investments and Bravura. Four of the companies are still at exploration stage. *The vulnerability of the structural risk indicator was rated **medium High***

Table 11. 1 Summarized GDP contribution by the Mining sector

	2016	2017	2018
Contribution to GDP (billions)	USD1.7bn (8.2%)	USD1.8bn (8%)	USD6.7bn (26%)
Number of mining titles	50 000	40 330	36 371

Table 11. 2 Percentage Contribution by minerals.



Client Types

Half of the players had established sources of funds with the top three sources being bank loans, share capital and business proceeds. No ongoing due diligence is done on source of funds. MMCZ and FPR are State-funded. Some customers profiled include domestic PEPs, high net-worth individuals and clients with foreign business interests. The gold sector is dominated by PEPs. It was also noted that mining is capital intensive business, and as such, it is mainly invested into by high net-worth individuals. *The vulnerability of the structural risk indicator was rated **medium**.*

Level of Cash Activity

The statistics gathered indicated that there is a moderate level of cash activity in the gold sector, whereas for all other precious stones and precious metals, it is non-existent as transactions are done through bank transfers. Cash disbursements for gold sales totaled **USD388million in 2017** and **USD450million in 2018**. This is an increase of USD62 million. This constitutes 15% of total gold sales. The increase was commensurate to increased gold production.

Locally, gold trade largely involves large cash transactions, where FPR buys gold from (mostly small-scale to medium) producers, where they pay these customers in cash. About 26% of gold producers are paid in cash. These cash payments provide an incentive to the gold dealers, who easily have alternative markets: - smugglers - who pay cash on the spot, and in most cases, at better price than that of FPR. In the case of PGMs, there is no cash involved in the transactions. It is important to note that the source of the cash was the Government of Zimbabwe and the gold purchased originated from registered mining locations. *The vulnerability of the structural risk indicator was rated **Medium**.*

Use of Agents There is one (1) appointed super-agent (FPR), for gold buying in the country. This super-agent in turn appoints its own buying agents, to source gold on its behalf. The key requirement placed on

prospective agents is for them to prove that they are going to cater for a new gold production area, which is not covered by any existing agent. The agency relationship is governed by the organization's "Responsible Gold Sourcing Framework" which covers AML/CFT aspects including the need to carry out a risk assessment, KYC and customer identification, UBO information, precious metals supplier due diligence, record keeping and transaction monitoring. Agents or buyers are required to comply with standards set forth in the model supply chain policy in Annex II of the OECD due diligence guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. The principle agent performs these due-diligence checks at on boarding. The vulnerability of the structural risk indicator was rated medium low.

Frequency of International Transactions

All mined diamonds were sold through public auction system. The Minerals Marketing Corporation of Zimbabwe conducted CDD on all buyers. Diamond sales have been targeted at international buyers, from destinations such as India, China, Dubai and Antwerp. This sector has been dominated mainly by international transactions, except for those dedicated for the local market. All PGMs (thus 100%) were exported and export permits for all precious stone and metals were issued by the regulator. The Minerals Marketing Corporation of Zimbabwe is the sole agent responsible for the export of all minerals in Zimbabwe, except for gold and silver. *The vulnerability of the structural risk indicator was rated **high**.*

Control measures in the precious stones and mineral sector

Comprehensiveness of AML Legal Framework

Dealers in Precious Stones and Precious Metals in Zimbabwe are designated as non-financial businesses, and the Money Laundering and Proceeds of Crime (MLPC) Act, Chapter 9:24 provides for AML/CFT regulation for Precious Stones and Precious Metals sector. MLPC Act requires dealers in precious stones and precious metals to have -Know

Your Customer (KYC) and Customer Due Diligence (CDD) procedures in place. The Act also provides for seizure, detention and forfeiture of precious metals and stones, and gives powers to the Unit's Inspectors or Zimbabwe Revenue Authority to seize or detain items under Section 11.

Dealers in this sector are required to monitor transactions, keep records, and report suspicious transactions to the Unit, within the prescribed period. Further, dealers are required to disclose physical cross-border transportation of precious metals or stones to customs officials. MLPC Act is complimented by the Customs & Excise Act, Chapter 23:02, which provides for restriction of exportation of goods, which requires a permit, and precious stones and precious metals require a permit from MMCZ and Form CD1 from the Reserve Bank of Zimbabwe, for export of the minerals. A penalty is levied on violation of this provision.

MLPC Act also provides for treatment of high risk customers, including PEPs, and the need to identify beneficial owners. Zimbabwe's mining industry has more than thirty (30) pieces of legislation which govern mining operations, although most of these do not directly deal with AML/CFT requirements.

<http://www.chamberofminesofzimbabwe.com/miningaffairs/administration-of-the-mining... 9/26/2014>.

The principal law, the Mines and Minerals Act, which is undergoing revision, provides security of tenure and has clear provisions for acquisition, maintenance and relinquishing of mining title. The Zimbabwe Diamond Policy's key objective is to optimize exploration of diamonds, from mining, beneficiation, value addition to marketing, and guarantee security and accountability of the diamond industry.

The Mines and Minerals Act is complimented by the following laws and regulations: Gold Trade Act; Chapter 21:03, Precious Stones Trade Act; Chapter 21:06, Statutory Instrument 82 of 2008, Statutory Instrument 79 of 2014. The vulnerability of the structural risk indicator was rated 0.9 Close to excellent.

Effectiveness of Supervision/Oversight Activities

Section 3 of the MLPC Act gives Competent Supervisory Authorities power to supervise AML/CFT compliance by their players. Accounting Officer Procedure Manual is a supervisory handbook that details the requirements to be complied with from acquisition of mining title, right up to closure of the mine. In Sections 251 and 252 of the Mines and Minerals Act 21:05 empowers the Ministry to receive returns and inspect books onsite. The first ML/TF NRA results were disseminated thereby improving awareness of areas of risk within the sector. Annual Strategic Planning workshops and Chamber of Mines AGM incorporate AML/CFT awareness within the program. There is a dedicated fund for compliance activities.

There are three (3) Mines Inspectors per province (total 24) who participate at Strategic Planning Workshops. Ministry also makes use of the Minerals Flora and Fauna Unit (former Minerals and Border Control Unit) who are deployed in various provinces to enhance supervisory activities and enforce compliance.

There is a documented risk-based assessment of players and National Gold Mobilization Taskforce inspects high risk players on a quarterly basis. The inspection team includes Ministry officials, ZRP Flora and Fauna, Exchange Control and the ZNA. Regulator records and reports examination results in a systematic way and is able to effectively use these records for policy decisions. The vulnerability of the structural risk indicator was rated 0.6 Medium High.

Administrative Sanctions

There are a wide range of administrative sanctions in the various Acts referred to earlier i.e. MLPC Act 9:24 as amended, Mines and Minerals Act 21:05, Gold Trade Act 21:03, Precious Stones Act 21:06. Mines and Minerals Act provides for hefty fines (up to level 8 where the Ministry can impose a fine on a player (up to level 8) and/or 2-years imprisonment. There are records and statistics available on closure of

mines and revocation of licenses. The vulnerability of the structural risk indicator was rated 0.7 High.

Criminal Sanctions

Mines and Minerals Act provides for hefty fines (up to level 8 where the Ministry can impose a fine on a player (up to level 8) and/or 2-years imprisonment. On a regular basis, law enforcement agents apprehend offenders found in possession of precious stones or gold. They are arrested in terms of the Gold Trade Act and Precious Stones Act. A prospecting license allows only for the search for or collection of mineral samples but does not allow for possession. There is a prohibition for possession of precious metals or precious stones without a valid certificate of registration. The vulnerability of the structural risk indicator was rated **0.7 High**.

Availability and Effectiveness of Entry Controls

It is mandatory for all players to be registered with the Ministry of Mines and Mining Development. The Ministry carries out onsite visits to verify information given on applications. In awarding Special Grants, applicants are expected to declare their level of investment and source of funds. Follow ups are conducted and sometimes mining titles are withdrawn for failing to comply with the law. Enhanced due diligence is carried out on high-risk products and functions for example jewelers, custom millers and elution plant owners are expected to go through police clearance and their premises are inspected. Multi-layer control is in place for elution plants where MFFU, elution plant owner and FPR have custody of keys to elution plants. A police escort is provided to deliver the produced gold to the registered agent. *The vulnerability of the structural risk indicator was rated 0.8 Very High.*

Integrity of Business or Profession Staff

All respondents have comprehensive staff vetting programs, and clear procedure in place for disciplinary action in cases of integrity breaches.

This has been supported by the statistics provided on criminal cases against both non-managerial staff and management, as well as enforcement actions against management. According to the statistics, over the period 2016 to 2018, there have been 39 integrity breaches by staff, all of which were diamond theft-related cases. During the period 2016 to 2018, there were 42 criminal cases against non-managerial (24 cases) and managerial staff (18 cases). Of these, six (6) involved diamond theft and the others related to fraudulent award of allowances. During the same period there were 61 cases of administrative enforcement against staff. The staff involved were disciplined and dismissed, and 12 cases were escalated for either civil or criminal proceedings. *The vulnerability of the structural risk indicator was rated **0.5 Medium**.*

AML Knowledge of Business/Profession Staff

Awareness by staff of AML compliance reporting procedures and obligations was generally good. Board and management of all players participated in AML/CFT training held during the Annual Strategic Planning Workshop. *The vulnerability of the structural risk indicator was rated **0.6 Medium High**.*

Effectiveness of Compliance Function (Organization)

All respondents confirmed that they have internal and external audits performed on their organizations. One stated that AML/CFT is part of the audit scope while the others are not audited for AML/CFT. Audits are at least performed annually with one respondent having audits biannually. *The vulnerability of the structural risk indicator was rated **0.6 Medium High**.*

Effectiveness of Suspicious Activity Monitoring and Reporting

All players stated that staff members have a good understanding of their reporting obligations on STRs. None of the players have information systems that enable and facilitate the monitoring of client transactions and comparing them against the clients' profile. Statistics reveal that

two (2) STRs were received from the sector as submitted in 2016. There have been no STRs since then. The sector mainly relies on preventive controls and concurrent controls. *The vulnerability of the structural risk indicator was rated* **0.6 Medium.**

CONCLUSIONS AND RECOMENDATIONS

Priority Actions

- ❑ Supervisors to increase sector-wide awareness of AML/CFT compliance through workshops and periodic meetings.
- ❑ To facilitate dedicated training for Mining Inspectors and other relevant compliance staff, especially for how to identify red flags.
- ❑ Major players to increase capacitation and resourcing of their compliance functions, and formulate AML/CFT policies and procedures.
- ❑ Supervisors to complete the ML/TF sector risk assessment which will enable the drawing out of a comprehensive, risk-based supervision program that consists of on-site and off-site monitoring and on-site inspections on both regularly scheduled cycles and periodic spot-checks (risk-based and as necessary). Targeted inspections on transaction monitoring and suspicious transaction identification are recommended.
- ❑ Inclusion of AML/CFT issues at staff induction stage.
- ❑ Full automation of processing plant to avoid physical handling of diamonds in the value chain.
- ❑ Major players to put in place adequate transaction monitoring systems, and report STRs.

Proposed Action Plan

Informed by the World Bank Tool, the Priority Ranking of AML Controls which need to be implemented or improved on, the following action plans need to be implemented: -

- a) Increase the AML awareness within Dealers in Precious Stone and Precious metals.
- b) Based on the risk assessment results, the Regulator should start conducting risk based AML monitoring and supervision of the sector.
- c) More sector specific Risk Based AML Guidelines should be developed by the FIU.
- d) The regulator should start issuing deterrent sanctions for non-compliance.
- e) Extending the current level non AML CTF controls towards AML CTF issues.
- f) The FIU to engage and capacitate Dealers in Precious Stone and Precious metals.

Conclusion

The assessment established that there are low levels of AML controls in place in the sector, which are being effectively implemented. The default SRA – the FIU, needs to start monitoring and supervising the sector, in line with the risk based approach.

It is important that the regulator Dealers in Precious Stone and Precious metals capacitate themselves on AML requirements, so that they can start contributing to the fight against money laundering.

CHAPTER 12

VULNERABILITY OF REAL ESTATE AGENTS SECTOR

KEY FINDINGS OF THE SECTOR

The ML risk exposure for the real estate agency business was rated **medium, 0.47**. Assessment of ML/TF risk was conducted using data collected from various key regulatory, supervisory, industry players and online sources to determine inherent ML risk and assess the effectiveness of the AML controls within the sector, using the World Bank ML risk rating tool. The structural/inherent ML risk was noted to be medium, and the AML/CFT control measures, were noted to be medium low. As part of measures to increase the adequacy and effectiveness AML/CFT controls for the real estate business, it is recommended that the FIU should continue monitoring and supervising the sector on a risk-based approach, at the same time as actions for the capacitation of the EAC compliance are put in place.

BACKGROUND AND OVERVIEW OF THE SECTOR

Introduction and Background

Estate Agents Council is the regulatory body for all registered real estate agents and firms. As at August 2018, the EAC had a database of 234 registered agents with full membership in their books.

The MLPC Act designates an estate agent registered or required to be registered under the Estate Agents Act [Chapter 27:17] (No. 6 of 1999), to comply with the national Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) requirements. Section 6 of the Estate Agents Act, lists the categories of persons who may perform estate agents' work without being registered with the Estate Agents Council (EAC). These among others, include; a legal practitioner registered in terms of the Legal Practitioners Act [Chapter 27:07] or a public

accountant or auditor registered in terms of the Public Accountants and Auditors Act [Chapter 27:12]; a person employed by the State or that local authority whilst he is working under the control of a registered estate agent in the service of the State or local authority; the Sheriff or a deputy Sheriff of the High Court or a messenger or deputy messenger of or a magistrates court, while carrying out his official duties; a building society or any employee or agent of a building society, whilst carrying out his official duties.

The 2015 National Risk Assessment, found the Banking Sector and the DNFBP sectors to be the most vulnerable for ML/TF risks. Among the DNFBPs, the real estate sector and dealers in precious stones and dealers in precious metals were found to have a higher exposure to money laundering (ML) risks, thus prone to criminal abuse by money launderers, who would intend to hide their illicit proceeds. The overall vulnerability of the sector to money laundering was found to be high, with a rating of **0.75**, taking into account that there was very little application of CDD measures in the industry, as agents jostle to make a sale, and lack of monitoring of transactions, non-reporting of STRs, proliferation of bogus agents and the high cash intensity of the sector.

DETAILED FINDINGS

The following are findings that have been noted in this sector.

Structural Risk Indicators

Size of Business

The Real Estate industry is comprised of both regulated and non-regulated groups, property valuers, and auctioneers. It comprises of 260 firms and 350 registered estate agents. The non-regulated real estate agents pose a high vulnerability to ML. Property owners also engage in transactions directly with buyers and/or tenants and these transactions are not under any supervisor's purview. Section 52 of the Estate Agents Act enables other professionals such as lawyers to sell

property in the course of their business thus increasing the number of players in the business.

However, public media reports indicate that real estate agency has been negatively affected by the debilitating liquidity crunch, a severe cash shortage, low investment inflows and company closures. *The vulnerability of the structural risk indicator was rated medium-low.*

Client Types

During the period under review; January 2014 – December 2018, most real estate agents' clients (buyers) were salaried individuals seeking to acquire residential stands sold through mortgages. These individuals were rated low risk because of their verifiable sources of funds. The table below depicts the type of customers, volume of sales and the number of transactions in each value quadrant.

Table 12. 1 Customer types in Real Estate Sector.

Type of Customer	Volume	Number of transactions in each quadrant				
		0 - 50,000	\$51,000 - \$150,000	\$151,000 - \$350,000	\$351,000 - \$500,000	Above \$500,000
Individuals	83,787,015.17	2437	538	291	45	6
Corporates	40,906,156.65	179	86	58	24	19
Trusts	8,658,901.00	13	20	20	7	3
Non-residents	2,132,000.00	29	9	7	-	-
PEPs	1,720,000.00	-	0	1	-	1
Church	130,000.00	-	1	0	-	-
Total	137,334,072.82	2658	654	377	76	29

It was also noted that financial institutions were also actively participating in the buying and selling of real estate. Financial institutions are low risk customers. However, the presence of non-residents and trusts which in most cases were linked to PEPs increased the ML/TF risk level of the business to medium. This was mostly due to the fact that these types of customers pose a high risk to ML/TF. *The vulnerability of the structural risk indicator was rated **medium**.*

Level of Cash Activity

The WG also assessed the level of cash activity in the real estate business. The fact that cash is the mainstay of most predicate offences; criminals often seek to dispose of cash into high value goods. Money launderers normally want to move funds quickly in order to avoid detection. This is more easily done in once-off transactions hence the attractiveness of real estate to criminals.

Analysis of readily available advertisements in the print media and on social media by real estate agents revealed that sellers often prefer strictly United States dollars. Sellers of properties amounting to hundreds of thousands of dollars' demand payment for those houses in hard cash. This high demand for cash significantly exposes the real estate agency business to risk of money laundering. Interviews with real estate agents established that the Zimbabwean real estate sector had become what they termed a seller's market, as those disposing of their properties determined the pace of the market and in turn were demanding offshore payments for their properties. This practice is very difficult for the government to control or detect, where parties agree, thus posing high risk of ML/TF. However, Zimbabwe has been facing a shortage of foreign currency and cash and it was posited to the working group that most property sales were paid for through bank transfers, the major source of funds being mortgages which resulted in few STRs being filed by the sector. The few real estate transactions that were paid for in cash were handled through legal representatives or direct interactions between buyer and seller. *The vulnerability of the structural*

*risk indicator was rated **low***

Use of Agents

Real estate transactions involve the use agents (negotiators) to negotiate between buyers and sellers. These negotiators work on commission and this competition for customers and commission increases the risk of ML/TF in the agency business. The proliferation of unregistered and unregulated “agents” increases the vulnerability of the profession to ML/TF. The presence of lawyers conducting real estate agency work is also increasing the vulnerability of the estate agency business. The vulnerability of the structural risk indicator was rated **high**.

Difficulty in tracing the transaction records

Real estate transaction records are rather difficult and time consuming to retrieve as records will be kept at the respective agencies, conveyances, ZIMRA the Deeds Registrar’s Office upon transfer of Deed. These institutions do not easily divulge information and records are stored manually thus making the retrieval process time consuming. In addition, information on the buyer’s source of funds is not even collected as most agents were of the view that asking for such information could drive the customer away. *The vulnerability of the structural risk indicator was rated **difficult/ time consuming**.*

Overall Rating of the Inherent Vulnerabilities Medium (0.47)

CONTROL MEASURES

Comprehensiveness of AML legal framework

The MLPC Act designates the business as a non-financial business and profession. Section 25(2) of MLPC Act provides for the appointment of compliance officers across all designated businesses real estate included. EAC designated the principal registered agents as the compliance officers for their respective agencies. Section 63(3) of the EA Act provides that the principal registered agent should be an

executive director - this ensures that the compliance officer is a senior manager with sufficient authority and knowledge of the business. Most firms do not have an effective compliance function due to a lack of AML/CFT knowledge and appreciation on the part of the directors and owners of the businesses. The control measure was rated **very high**.

Effectiveness of Supervision

The sector is regulated by the EAC. However, due to capacity constraints, inadequate technical capacity and budget to conduct AML/CFT Supervision, the EAC had not conducted any AML/CFT onsite or offsite supervision of estate agents. The FIU has, however, conducted two (2) onsite inspections jointly with the EAC.

At the time of production of this report, the EAC had put in place a compliance function which is seized with all compliance issues and not explicit to AML/CFT. It was noted during assessment that the EAC exercises moral-suasion on members who finance the EAC through subscriptions which impacts on the independence and operational efficiency of EAC on AML/CFT supervision. The RBA Supervision Framework had also been completed and ready for dissemination to the sector. The control measure was rated **medium high**.

Availability and Enforcement of Administrative Sanctions

The MLPC Act provides for Financial and Administrative penalties for DNFBPs' found to be non-complaint. However, no enforcement had been undertaken during the period under review. In addition, Section 28 of the Estate Agents Acts provides for penalization through deregistration of non-complaint agents from the EAC membership where agents can be suspended over abuse of trust accounts. Individuals can be banned from operating any sort of estate agency business. The Act also provides for the Deregistration and gazetting of agents for non-compliance with EAC registration requirements. The control measure was rated **high**.

Availability and effectiveness of entry controls

The EAC regulates registration of estate agents and Section 28 (1) (c) EA Act provides for registration requirements. There is in existence an examinations board which sets the entry examination. However, the proliferation of unregistered agents in testament that the entry controls are not effective. The exclusion of AML/CFT in the examination syllabus also impacts on the effectiveness of the entry examination as a control. AML/CFT Policies; compliance manuals and appointment of well-qualified internal controls/compliance staff not part of registration requirements. The control measure was rated very **low**.

Integrity of Business / Profession Staff

The profession has in place controls to ensure integrity amongst members. The police are engaged for criminal charges' clearance of directors of agencies (fit and proper test). Section 27 of the EA Act provides for the rejection of applications on the basis of acts of dishonesty. There are Professional Conduct Regulations which all members are expected to adhere to. Section 31 of the EA Act provides for disciplinary action for any acts of misconduct and sanctions relating to the same.

There's the risk of negotiators conducting business outside the ambit of the registered estate agent firms. Such transactions are vulnerable due to collusion with criminals. Reports of arrests and litigations for abuse of trust accounts are indicative of the lack of integrity that exists in the profession. The control measure was rated **medium**.

AML Knowledge of Business/ Profession staff.

Level of AML knowledge within the sector was noted to be low despite there having been trainings conducted for the EAC and registered agents during the period under review. The real estate agents interviewed exhibited low levels of understanding AML/CFT requirements and their duties including reporting procedures and

obligations and their exposure to ML risk. The control measure was rated **low**.

Effectiveness of Compliance Function

Section 25(2) of MLPC Act provides for the appointment of compliance officers across all designated businesses. EAC designated the principal registered agents as the compliance officers for their respective agencies. Section 63(3) of the EA Act provides that the principal registered agent should be an executive director - this ensures that the compliance officer is a senior manager with sufficient authority and knowledge of the business. Most firms do not have an effective compliance function due to a lack of AML/CFT knowledge on the part of the directors and owners of the businesses. The control measure was rated **low**.

Effectiveness of Suspicious Activity Monitoring and Reporting

During the period under review no STRs had been filed to the FIU by real estate agents. Staff should have a good understanding of the scope of their reporting obligations on suspicious transactions and activities, including what activities are covered or not covered under laws or rules on professional secrecy and professional/client privilege. This was attributed to the fact that most transactions were financed through mortgages and bank transfers and agents felt such transactions were under the purview of the financial institutions. Of note was the lack of knowledge in identifying and recording complex, unusual large transactions and failure to effectively identify and report suspicious transactions. The control measure was rated **low**.

Availability and Access to Beneficial Ownership information

**This variable is also assessed by the National Vulnerability and Banking Sector Vulnerability Working Groups. Assessment ratings can be obtained from these Working Groups.*

Availability of reliable identification infrastructure

The country has a robust national identity system, and it is mandatory for every Zimbabwean to have the unique identity number which he/she is given at birth, by the Registrar General's office. Use of government issued national identification documents, proof of residence and certificates of incorporation, memorandum and articles of association, tax clearance and identification of directors for companies to identify customers. The control measure was rated **close to excellent**.

Availability of Independent Information Sources

**The variable is also assessed by the National Vulnerability and Banking Sector Vulnerability Working Groups. Assessment ratings can be obtained from these Working Groups.*

Overall Quality of AML Controls

The AML controls for the sector were overall rated, **medium low (0.30)**.

Residual ML risk of the sector was noted to be **medium**, with a score value of **0.47**.

RECOMMENDED ACTION PLAN

Informed by the World Bank Tool, the Priority Ranking of AML Controls which need to be implemented or improved on, the following action plans need to be implemented:

- a) Raise AML awareness within the real estate agency business.
- b) FIU should continue conducting risk-based AML monitoring and supervision of the sector.
- c) Sector specific Risk Based AML Guidelines should be disseminated by the FIU.
- d) Capacitate EAC Compliance to conduct risk-based AML monitoring and supervision of the sector and start identifying and reporting

STRs.

- e) There's need for criminalization of operating a real estate agency without the requisite operating certificate i.e., Compensation Fund Certificate.
- f) There's need for training and awareness for agents, negotiators and directors.

CHAPTER 13

VULNERABILITY OF TRUST AND COMPANIES SERVICE PROVIDERS (T&CSPS)

SECTOR

KEY FINDINGS FOR THE SECTOR

The overall risk in the T&CSPs sector was noted to be **Medium** and recommendations to bridge the identified deficiencies are given in the action items below.

OVERVIEW AND BACKGROUND

The focus is on risk assessment on vulnerability of Trusts and Company Service Providers (T&CSPs) firms which include Lawyers, Notaries, and other independent legal professionals such as Accountants, to money laundering risk as they provide their services when they prepare for or carry out transactions for a client concerning the following activities: act as a formation agent of legal persons; act as (or arranging for another person to act as) a director or secretary of a company, a partner of a partnership, or a similar position in relation to other legal persons; provide a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; or act as (or arranging for another person to act as) a trustee of an express trust or performing the equivalent function for another form of legal arrangement; and acting as (or arranging for another person to act as) a nominee shareholder for another person.

DETAILED FINDINGS

Comprehensiveness of AML Legal Framework

The AML legal framework is comprehensive as enshrined in the Money

Laundrying and Proceeds of Crimes Act (Chap 9:24) (2018) where T&CSPs are defined in Sec. 13(g). An important area covered in the T&CSPs sector is the aspect of beneficial ownership information of which the term Beneficial Owner is defined under section 13 of the MLPC Act. It was also noted that the Companies Bill, which will cover most aspects relating to beneficial ownership has already gone through Parliament and is now in the third reading before it goes for Presidential ascent. The variable was given a rating of **0.7**.

Effectiveness of Supervision/Oversight Activities

The Registrar has an appreciation of ML risks in the sector; the current Companies Act does not specifically speak to the conduct of AML/CFT compliance supervision. Beneficial ownership information is available with the Registrar of Deeds and Companies, Notary publics and Company secretaries but it takes time for authorities to access it because it is not in a centralized database. The T & CSPs consultants are affiliated to professional bodies such as such as the Law Society of Zimbabwe and the Public Accountants and Auditors Board, also carry out oversight roles. The variable was given a rating of **0.6**

Availability and Enforcement of Administrative Sanctions

The Registrar of Deeds and Companies enforces administrative sanctions by way of striking firms off the register if their licenses are revoked by professional bodies that the consultants are affiliated to. The Registrar also suspends processing of any transactions lodged by a T&CSP if queries are raised by Authorities relating to non-compliance with any law including AML laws until the issues have been resolved. The variable was given a rating of **0.7**.

Availability and Enforcement of Criminal Sanctions

Sections 340 - 345 of the Companies Act stipulates penalties relating to criminal offences and other sanctions and these include; Section 341 - Penalties for false statements and oaths is a fine not exceeding

level 7 or imprisonment for a period not exceeding 1 year. Section 345 -Penalty for falsification of any books such as making any false entries in minute books and registers and attracts a fine not exceeding level 11 or imprisonment for a period not exceeding 2 years. The variable was given a rating of **0.5**.

Availability and Effectiveness of Entry Controls

T&CSPs should have a qualified Consultant, registered with the professional body they are affiliated to, such as the Law Society of Zimbabwe and Public Accountants and Auditors Board (Lawyers, Chartered Accountants, and Chartered Secretaries). It is a requirement with the Registrar of Companies that a current practicing certificate be produced or letter of good standing, proof of qualification together with an application letter be submitted on a yearly basis, for one to be a registered consultant. The Registrar of Deeds requires that a Practicing Certificate be produced on appearance and a specimen signature submitted before being registered. The variable was given a rating of **0.7**.

Integrity of Business/Profession Staff

Integrity in the sector is generally high, taking into consideration that consultants heading these firms are affiliated to professional bodies. Integrity is one of their guiding principles, as they subscribe to the rules and ethics of their professions. There have been a few cases relating to fraud committed by staff members of firms in the T&CSPs sector but have not been linked to money laundering. The variable was given a rating of **0.7**.

AML Knowledge of Business/Profession Staff

AML knowledge is generally limited among staff members of the firms and is mostly resident with professionals leading the firms. Awareness of AML compliance and reporting procedures is also limited. Training and awareness-raising programmes need to be provided to this sector.

The variable was given a rating of **0.3**.

Effectiveness of Compliance Function (Organization)

Few established firms have compliance functions but are not specifically appointed compliance officer to cater for AML compliance issues. The small firms and sole practitioners do not have this function nor are they well resourced. The variable was given a rating of **0.3**.

Effectiveness of Suspicious Activity Monitoring and Reporting

The Registrar of Deeds and Companies have a good understanding of their obligation on reporting of STRs but does not have an information system that enables and facilitates the monitoring of client transactions and comparing them against the client's profile. Transactional records are not available in a format that facilitates AML screening and monitoring. The variable was given a rating of **0.3**.

Availability and Access to Beneficial Ownership Information

Generally, stakeholders, such as financial institutions and Law Enforcement Agents find it time-consuming to access beneficial ownership information, from Registries of Deeds and Companies, though it is available. The majority of companies are small family businesses or members are colleagues and therefore beneficial ownership details are readily available with the Registrar of Companies. For those that are not up-to-date, this information is resident with the Company Secretaries and therefore scattered. This makes it difficult to monitor if beneficial ownership information is being maintained and up-to-date. The variable was given a rating of **0.6**.

Availability of Reliable Identification Infrastructure

The Registrar-General's Office has a reliable identification infrastructure for all natural persons, and T&CSPs ask for identification documents to establish the identity of the natural persons requesting the service. However, the challenge is in the Registrars of Deeds and Companies

where data storage and retrieval is manual, rendering it inefficient and unreliable. The variable was given a rating of **0.4**.

Total size/volume of the business/profession

There are two (2) Registration Offices for both the Registrar of Deeds and Companies in Harare and Bulawayo respectively. The processes are basically manual, with Consultants having to visit the Registrars offices for lodging of registration documents. Each Registration Office has a list of registered consultants allowed to lodge registration documents with it. According to the Consultants lists the numbers of registered consultants for the year 2019 are: - Harare Office **77** and Bulawayo Office **49**, giving a total of **126**.

Client-base profile of the business/profession

The majority of Private Limited Companies are formed by resident citizens of Zimbabwe. Private Business Corporations are registered predominantly by individuals in the informal sector, to formalize their businesses. The Companies Act prohibits directorship of individuals with past criminal records Sec. 173(2)(b). There has been a single case of a business with links to a high-risk jurisdiction over the past 5 years. Rating is **very low**.

CONCLUSION

Proposed Action

- Speed up enactment of the Companies and other Entities Bill. Computerization of Deeds and Companies Registries.
- Creation of a beneficial ownership Database/Registry .
- Increase staffing levels at Registrar of Deeds and Companies, in the interim.
- AML/CFT Training and awareness campaigns to stakeholders (Deeds and Companies staff, and members of the T&CSPs).

CHAPTER 14

VULNERABILITY OF LAWYERS CLUSTER

KEY FINDINGS FOR THE SECTOR

The overall risk in the law profession is medium to low and is rated at **0.48**. The money laundering offence should be included in the Legal Practitioners Act. The scope of the audit in the Act should be very clear in referring to an investigation of presence or absence of money laundering. Law firms should have a compliance officer who is at senior management level and who is knowledgeable to deal with money laundering issues.

OVERVIEW AND BACKGROUND

The AML/CFT regime as espoused by the FATF designates lawyers as a reporting entity and as such lawyers are required to comply with FATF standards and recommendations.

The profession was assessed to determine the level of money laundering risk in the sector. The assessment was done by participants from the Financial Intelligence Unit, the Law Society of Zimbabwe, the Zimbabwe Anti-Corruption Commission and the CID Commercial Crime Division.

The number of registered lawyers in private practice is 1850 according to the Law Society of Zimbabwe records. There are over 600 Law firms, with over 420 of these being based in Harare.

Most Law firms consist of sole partners and they provide services such as civil and criminal litigation, drafting of legal documents, legal advice, corporate advisory services, estate administration and conveyance.

The assessment aimed to evaluate the degree to which lawyers are vulnerable to ML, and come up with recommendations to strengthen the capacity of the supervisor (LSZ) and the reporting entities (Law firms) in combating ML.

In assessing the risk, it was noted that most lawyers are registered with the Law Society of Zimbabwe (LSZ) and are therefore subject to supervision and monitoring by the mother body. The LSZ is responsible for registering lawyers who want to practice and issues practicing certificates. The risk is therefore considered to be low because of these mechanisms.

The financial system is now largely cashless and most transactions conducted by the lawyers sector are done through the formal financial system (i.e. banks) and this makes it easy to trace transactions.

In terms of the mode of payment by clients for services rendered 30% of law firms said that between 96% and 100% of payments were RTGS. Most work done by lawyers is for local clients and there is very little work which is done for international clients thereby limiting the scope for cross border money laundering.

However, there are gaps within the Lawyers Cluster in terms of legislation. Absence of AML/CFT guidelines for the supervisory authority (Law Society of Zimbabwe) and the absence of AML/CFT guidelines for the reporting entities (Law Firms) undermine mitigation of AML/CFT.

Structuring of companies, i.e. the creation of companies as vehicles for money laundering is very limited. Most firms deal with civil and criminal litigation. None reporting of STRs, most law firms have not submitted a single STR since the last NRA of 2015 was done.

DETAILED ASSESSMENT FINDINGS

Inherent risks

A questionnaire sent out to law firms had the following responses which gives an insight into the AML/CFT compliance in the legal fraternity.

- 30% of the law firms have appointed a sufficiently resourced independent AML compliance officer at senior management level

and 60% said they had not.

- 63% of the law firms said they had internal AML training programs that are commensurate to the level of risk of the firm while 36% did not have.
- 80% of the law firms take disciplinary measures for staff members who contravene AML regulations and 20% said they did not.
- 90% of the law firms said they take disciplinary action against staff in cases of breach of compliance policy and 10% said they did not.
- 45% of the law firms said they perform both internal and/or external AML audits and 55% said they did not.

Control measures

The main control in this sector is the Money Laundering and Proceeds of Crime Act Chapter 9:24 and it places AML/CFT legal requirements for Law firms to comply i.e by submitting suspicious transaction reports. The second control is Section 13 and 14 of the Legal Practitioners Act Chapter 27:07 which deal with opening of trust accounts and auditors to inspect the book of accounts. Trust accounts must be audited annually in addition to spot checks for compliance done by auditors. The third control is the Law Society of Zimbabwe Code of Conduct Section 54 The fourth control measure is the Lawyers Guide to Detecting and Preventing Money Laundering which is a collaborative publication of the International Bar Association, Council of Bars and Law Societies of Europe. However, controls are not adequate because most law firms do not have a compliance department which is manned by a senior manager as required by the AML/CFT standards.

RECOMMENDATIONS:

- Establish risk based AML/CFT guidelines for the Law Society of Zimbabwe.
- Establish guidelines for the Law Firms inter alia to create mandatory compliance units in Law Firms which will be headed by senior

managers.

- Expand the scope of audit under section 14 of the Legal Practitioners Act to cover money laundering issues.
- Incorporate the AML legal requirements for lawyers in the Money laundering and Proceeds of Crime Act.

CHAPTER 15

VULNERABILITY OF FINANCIAL INCLUSION PRODUCTS

BACKGROUND TO FINANCIAL INCLUSION IN ZIMBABWE

Financial Inclusion Status Zimbabwe - 2019

Zimbabwe Launched the National Financial Inclusion Strategy (2016-2020) on 11 March 2016. The strategy envisages an inclusive economy premised on promoting banking to the unbanked and encouraging the active participation of previously disadvantaged groups in the economic activities of the country. The strategy is anchored on four pillars that include innovation, financial literacy, financial consumer protection and microfinance. Since its launch, Zimbabwe has experienced a marked increase in the level of access to financial services.

FINANCIAL INCLUSION PRODUCTS

The following financial inclusion products were assessed for the purposes of this research and these are:

a) **Mobile Financial services:**

The dominant use of Mobile financial service products is largely attributed to government's thrust to create a "cash-lite" society premised on cashless based transactions. Mobile financial services serve products have predominantly been used in Zimbabwe as a result of the government's policy to promote cashless based transactions and other economics norms. These products are mostly provided by mobile network operators in conjunction with banking institutions. As a result of the mobile penetration rate and financial sector conditions in Zimbabwe, there has been a huge uptake or utilization of the mobile financial platform by financial services consumers which has contributed to financial inclusion.

Mobile financial services include utility bill payments, wallet and banking services and payment services. Improvements in the regulatory framework for mobile banking transactions, enhanced supervisory oversight by the Reserve Bank and transaction limits has helped to reduce the threat of ML/TF.

b) Microfinance Institutions (MFIs)

Microfinance Institutions operate under the regulations of the Microfinance Act. There are deposit taking MFIs and non-deposit taking/ credit MFIs. The number of MFIs has increased from 147 in 2014 to 205 in 2018. The total number of MFIs branches increased from 473 in 2014 to 778 in 2018 reflecting the wider outreach by microfinance institutions.

The risk assessment revealed that the average value of loans is less than \$1,000 which presents low risk in terms of threats to ML/FT risks. Microfinance institutions are largely funded through local equity and have less access to foreign lines of credit which again poses less risk to threat of ML/FT. The average number of MFI clients increased marginally from just above 200,000 in 2014 to just over 300,000 in 2018 out of an estimated adult population of about 8 million.

c) Banking Products

Financial inclusion products offered by banking institutions include low cost accounts and micro-loans delivered through mobile banking platforms and delivery channels such as bank agents, POS machines and internet. Mobile banking is the access of banking services using a mobile phone that has a platform to link the mobile phone application to a primary account held with the bank as opposed to mobile financial services which do not require one to have a bank account.

The mobile banking account is subject to standard KYC requirements and CDD. Mobile banking transactions are subject to transaction limits of between \$200 and \$500 and a maximum transaction limit expressed

as monthly limit of between \$1,000 and \$5,000 which helps to mitigate against potential ML/TF risks.

Banking institutions as lead providers of the financial services have a variety of financial inclusion products that fall under different categories. These include mobile banking, agent banking, POS, basic no charge accounts, as explained below:

c.1. Mobile banking

Mobile banking is the access of banking services using a mobile phone that has a platform to link the mobile phone application to a primary account held by the bank. This is not the case with mobile financial services which do not require one to have a bank account.

The primary account accessed through mobile banking is subject to standard KYC requirements and CDD. Mobile banking accounts are not opened in absentia as face to face account opening is carried out at opening of primary account. Transactions are limited in value with limits ranging from a single transaction limit of between \$200 and \$500 and a maximum transaction limit expressed as monthly limit of between \$1000 and \$5,000. However, these limits are adjusted accordingly to meet cash and digital transactions demand.

c.2. Agent Banking:

In order to increase the financial institution's sphere of operations in remote areas, agent banking was introduced. Most banks use the agent banking concept in remote unbanked areas. This approach is also referred to as branchless banking. Agents often operate at retail stores, fuel stations or post offices. The banks will be riding on an existing infrastructure and client relationships, and it is low cost to extent financial products across the country.

Agents use the KYC lite requirements to open low cost accounts. Transaction sizes at agent outlets are limited between \$150 and \$500. Agents are trained on standard KYC requirements and the

related reporting requirements by partner banks. In addition, all agent transactions are monitored on the main banking platform through periodic exception reporting of large transactions.

d) Basic no charge accounts

Basic no charge accounts or no-frills accounts are primarily targeted at low income groups as a way of harnessing their deposits into the mainstream banking system. The accounts are opened using standard KYC requirements including trust deeds, constitutions, board resolutions and positive identification of signatories among other requirements. They have a waiver on standard transaction charges and monthly account maintenance fees. There are, however, limits in place in respect of maximum deposits and withdrawals which makes it difficult to abuse the accounts for possible ML/TF.

e) Stand-alone ATMs:

Banks offer stand-alone ATMs for withdrawal in areas such as shopping centers where banks have little or no representation. These are usually linked to standard individual bank accounts with the added advantage of proximity to target market.

f) Unit Trusts:

Unit Trusts are a form of Collective Investment Schemes offered by Investment Management Companies. The Unit Trust Funds aggregate investments from numerous investors into a single pool. The underlying investments are diverse and cover listed equities, property, precious metals (gold) and interest bearing instruments.

Unit Trust holders invest in Unit Trust Funds so that their funds will be invested in certain class of asset(s) to achieve agreed investment objectives by taking advantage of economies of scale and lower transaction costs. Currently there has been an introduction of mobile trading platform for unit trusts that trade as low as \$1 to \$5 to promote financial inclusion.

g) Remittances

Zimbabwe receives a substantial amount of remittances from an estimated Diaspora population of between 2 million to 3.5 million. The socio economic impact of the Diaspora remittances has been phenomenal to the livelihoods of most Zimbabweans with relatives abroad. Remittances significantly contributed to the country's GDP. They also played an important role in promoting financial inclusion to the relatives receiving their money.

h) Savings and Credit Cooperatives

Cooperatives are legal entities which are administered by the Cooperative Societies Act (Chapter 24:04), the sector's by-laws, and society's constitution. The cooperatives are established for different purposes such as housing, savings and credit and funeral insurance. Statistics relating to the transaction activities in respect level of savings and credits is not available. Saving deposits are usually drawn from members and lend out among the same members. The size of savings is usually small surplus amounts from members which may not pose any risk to ML/TF.

i) Micro-insurance

The Insurance and Pensions Commission licensed two stand-alone companies offering micro-insurance products in 2018 to complement other insurance companies that offer micro-insurance products. Uptake is still low largely due to current economic challenges. As a result, the ML/FT risk of micro-insurance products is considered low.

j) Capital markets products

Participation of low income groups on the capital market is still very low. The FinScope Survey of 2014 revealed that only 1% of the population participants on the Stock market. The Securities and Exchange Commission, the regulatory authority for the capital markets continues to spearhead initiatives to promote uptake of capital markets products

by the majority of Zimbabweans. Some of the initiatives include introduction of on-line trading on the mobile platform, establishment of an alternative trading platform for shares as alternative to the traditional trading platform with relaxed requirements for listing and trading.

Assessment methodology of ML/TF risks in financial inclusion products

The exercise involved gathering data on financial inclusion products to assess ML/TF threats and ML vulnerability. The module working group members utilized the National Risk Assessment tool developed by the World Bank. The working group members coordinated the gathering and analysis of data of financial inclusion products and reviewing the results.

The overall ML/TF risk for financial inclusion products was arrived at following an analysis of the ML/TF threats and vulnerabilities.

The ML threat analysis focused on collecting and analyzing relevant data in-order to identify the prevalent crime types (predicate offences) that pose a threat in the country and that generate illicit proceeds. It also sought to identify the origins of proceeds (both domestic and foreign) as well as the money laundering trends and methods.

The TF threat analysis sought to assess the level and sources of TF using statistics and other relevant information.

The ML/TF vulnerability analysis assessed the vulnerability (weaknesses that can be exploited for ML purposes) of various components of the AML/CFT framework. For each of the indicators, a threat, vulnerability or risk level was assessed based on the information and statistics available.

Table 15. 1 overall Risk environment for financial Inclusion Products.

Product Features	Overall Risk Environment
Threshold on value of transactions	Significant proceeds of crime generated
Threshold for number of transactions	Significant terrorist activity
Anonymous use of product possible	Market Entry/Controls to Financial Inclusion Products (FIP) providers
Non-face-to-face account opening permitted	FIP obliged to establish monitoring mechanisms
Non-face-to-face transactions permitted	FIP have appropriate monitoring mechanisms
Any suspected financial crimes with product	Supervisory Agency have policies/procedures to monitor risks
Cross border transactions allowed	Supervisory Agency have resources for oversight
Cross order transactions to high risk country	Staff receiving adequate training to monitor transactions
Product offered/used by non-resident	Management institutions having awareness and commitment on AML/CFT
Are legal persons / business allowed to use the product	Guidelines to assist financial institutions on reporting unusual or suspicious customers or transactions.
Product use banking correspondents/agents	

The research findings were analysed in light of the following review guidelines on the Financial Inclusion Products:

- a) Design/features of the product.
- b) How the product is used (account opening, type/value/frequency of transactions).
- c) Cross border transactions with high risk jurisdictions.
- d) Operating environment or market.
- e) Uncontrolled or monitored value and volume of transaction.

RESEARCH FINDINGS

The research collected data that was premised towards the following questions or guide on the financial inclusion features and the overall risk environment.

Mobile financial servicesOverview of the product

Mobile financial service transactions are based on various technologies which include SIM Toolkit (STK), Unstructured Supplementary Service Data (USSD) and Interactive Voice Recognition (IVR). Services provided cover the following:

- P2P transfers.Airtime purchase and transfer.
- Bill payments with real-time integration with utilities.
- Merchant payments.
- Bulk disbursements.
- Transfers between electronic wallets and bank accounts.
- International/Diaspora remittance.
- Micro-savings.
- Micro-insurance.
- Micro-credit.Local and international card payments.

Legal Framework

Provision of mobile financial services products requires prior Reserve Bank of Zimbabwe approval. The approval process entails assessment of potential risks associated with the provision of the product and assessment of the adequacy of the risk mitigates to minimise fraud and potential losses.

Mobile financial services products are offered and approved in line with the following:

- a. Bank Use Promotion Act [Chapter 24:24].
- b. National Payment Systems Act [Chapter.24:23].
- c. Banking Act [Chapter 24:20].
- d. Postal and Telecommunication Act [Chapter12:05].
- e. Microfinance Act [Chapter 24:29].
- f. Money Laundering and Proceeds of Crime Act [Chapter: 9:24].

Inherent vulnerability of MFS

The assessment of mobile financial service products revealed that there are no reports of recorded cases reported or prosecution on money laundering or terrorism financing arising from use of mobile financial services during the period from 1 January 2014 to 31 December 2018. The assessment also revealed that there are transaction limits on all mobile transactions per day per individual which makes it difficult to use mobile payment platforms for money laundering activities.

Mobile financial services products are largely dominated by local P2P transactions which are subject to daily transaction limits. The transactions are also monitored on a real time basis by the National Payment Systems Department of the Reserve Bank of Zimbabwe. In addition, banks have an obligation to report any suspicion transactions to the Financial Intelligence Unit.

Cross border payments are currently limited due to shortages of foreign currency while outgoing mobile payments are non-existent as the country is a net recipient of diaspora remittances.

Controls on MFS

Controls include:

- Individual transaction limits (daily, monthly and per transaction),
- Customers are positively identified with a national ID when transacting, thus no anonymity,
- The Know-Your-Customer Lite (KYC-Lite) requirements on account opening and face to face transactions,
- Transactions are secured by passwords which eliminates potential abuse of mobile accounts for facilitating ML/FT,
- One ID one wallet policy in place, configured in system and monitoring of all customers' accounts,
- The Financial Intelligence Unit (FIU) is part of the payment systems license application and approval process,
- Ongoing agents training on anti-money laundering,
- All mobile financial service providers are required to have a trust account with a registered financial institution where all transactions are recorded, and
- Third part registrations are not permitted.

AML/CFT RISKS FOR MOBILE FINANCIAL SERVICES PRODUCTS WERE RATED LOW

Microfinance Sector

Overview

Microfinance institutions (MFIs) are licensed and regulated by the

Reserve Bank of Zimbabwe under the Reserve Bank Act and they are supervised in terms of the Microfinance Act [Chapter 24:29]. As at 31 December 2018, there were 205 registered MFIs and six registered deposit taking MFIs with branches around the country. Operations of the MFIs have been predominant in the major urban centres targeting civil servants and small to medium enterprises who are the low income earners in the country. MFIs extended loans amounting to \$84.40 million as at 31 December 2018, which is 0.60% of the total loans in the financial sector. This indicates the low ML/TF risk exposure from the utilization of the microfinance products in the financial sector judging from the size of the microfinance in the banking sector in terms of loans.

Legal Framework

The Microfinance Sector is governed by a number of Acts and Regulations that are applied on the products and services provided for by the institutions. These act as controls to the financial inclusion products offered by MFIs on ML/TF risks. The following are the Acts and Regulations:

- a. Banking Act [Chapter 24:20],
- b. Anti-Money Laundering and Proceeds of Crime Act [Chapter 9:24],
- c. Regulations on the implementation of UNSCRs (Statutory Instrument 76 of 2014), and
- d. Microfinance Act [Chapter 24:29].

The MFIs operate under the Microfinance Act which provides for two classes of microfinance and moneylending businesses which are deposit taking microfinance institutions and credit only microfinance institutions.

Inherent Vulnerability and Controls

Microfinance transactions are low in value of credit extended to customers against the banking sector and high in volume. Their transactions are integrated with the various banking products channels

for the funds disbursements and utilization by their customers. Money is credited into a customer's account through mobile financial service channels. These include remittance systems and mobile banking systems.

These channels are compliant with the AML/CFT requirements through the compliance enforcement by banks and other financial regulations. This, therefore, minimises the ML/TF risk on microfinance products. In addition, microfinance products are predominantly for low income earners and funds disbursed are mostly for consumption, education, manufacturing, agriculture and health.

The institution's KYC requirements were line with minimum regulatory requirements for individuals and corporates. However, there is need to continuously train and increase awareness to new players in the microfinance industry as well as already existing players to a less extent. This initiative will improve the findings from the research that most MFIs, have complied with some of the AML/CFT requirements by association with the banks but they need more knowledge to understand and demonstrate AML/CFT.

It was also noted that through the Financial Intelligence Unit the MFIs report suspicious transactions. This demonstrates the availability of mechanisms to monitor transactions through MFIs. However, most of the cases are fraud related.

Microfinance products ML/TF risk was rated **low** on the basis of the following:

- a. Microfinance institutions major business is extending loans to clients, which are funds, invested by institutions the lending institutions which would have been verified by the RBZ and the corresponding banking institutions.
- b. There has been an increase in awareness and training on AML/CFT issues within the microfinance environment.

- c. MFIs close association with banking institutions on all transactions minimises the ML/TF risk in the microfinance products.

Banking Products.

Overview

The banking products are in various categories of the financial service product.

- Mobile Banking.
- Agent Banking.
- Basic No-charge accounts.

As a result, the mobile and internet banking traffic has increased over the years largely as a result of an increase in the number of access points and devices as shown in the table below:

Table 15. 2 Payment Systems Access Points

PAYMENT SYSTEMS ACCESS POINTS					
DESCRIPTION	2014	2015	2016	2017	2018
ATMs	538	556	569	561	555
POS	12,612	16,363	32,629	59,939	99,935
Bank Agents	802	1,723	4,059	4,865	4,715
Mobile banking Agents	25,618	38,745	40,590	47,838	50,740
MPOS	**	**	**	6,063	6,114

PAYMENT SYSTEMS ACCESS DEVICES

DESCRIPTION	2014	2015	2016	2017	2018
Debit Cards	3,613,781	2,365,160	3,127,153	4,281,683	4,734,299
Credit Cards	9,547	10,854	16,030	17,411	17,204
Prepaid Cards	28,881	30,125	43,288	63,987	88,406
Active Mobile Phone Banking	6,060,630	4,683,959	3,279,049	4,611,608	6,139,160
Active Internet Computer/Phone Banking	78,548	108,662	168,339	277,674	353,103

The increase in the number of access points and devices has witnessed a concomitant increase in the value of transactions.

CONTROLS FOR THE SECTOR.

Legal Framework

The following acts and regulations are used to regulate and supervision the development, implementation and use of banking products for financial inclusion:

- Banking Act [Chapter 24:20], Banking Regulations SI 205 of 2000
- Bank Use Promotion Act [Chapter 24:24],
- Regulations on the Implementation of UNSCRs published through Statutory Instrument 76 of 2014,
- Microfinance Act [Chapter 24:29],
- Money Laundering and Proceeds of Crime Act [Chapter 9:24], and
- National Payment Systems Act [Chapter 24:23].

These regulations have been amended in time to accommodate the changes in the financial services environment and comply with AML/CFT requirements. Thus, development of every banking product is reviewed and approved by the regulators before deployment into the financial services sector for all reporting and registered financial institutions.

Entry Controls

Applications for the introduction of new financial inclusion products, is subject to submission of the following documentation to the Registrar of Banks:

- a. Business Plan,
- b. Board Approval,
- c. Policies and Procedures for the new product incorporating KYC requirements and minimum standards, and
- d. Sign off by independent functions such as Risk, Compliance and Internal Indicate regulatory framework for financial inclusion products.

Amended regulations support financial inclusion at the same time complying with AML/CFT requires have led to the introduction of KYC Lite requirements on identification of new customers. This includes proof of residence and proof of income source. Since 2011, banks have been permitted to open accounts for financial inclusion products by accepting letters of confirmation from employers or signed affidavit from village leadership attesting to one's residence. However, the use of standard identification documentation remains a compulsory requirement for banking financial inclusion products.

Inherent Risk

The threat of ML/TF risks on financial inclusion products was rated **low** largely owing to the low value of transactions conducted by low income groups on mobile banking platforms. The transactions are also subject

to transaction limit controls and online monitoring mechanism by the National Payment Systems Division of the Reserve Bank. In this regard, the threat of abuse of financial inclusion products is limited.

Banks provide training and regular monitoring of activities by bank agents which also helps to minimize the threat of ML/TF risks on financial inclusion products offered through bank and mobile agencies. Banking institutions have put in place controls to detect any suspicious transactions and are mandated to report suspicious transactions to the Financial Intelligence unit.

The following KYC/CDD requirements were also noted as possible mitigates on ML/TF risk associated with financial inclusion products:

- a. Face to face account opening is carried out at opening of primary account,
- b. Limit on value of transactions per day and per month for individuals on sending money, and
- c. Limits on value of transactions at agent outlets. Agents are trained on standard KYC requirements and the related reporting requirements.

Capital Markets Products

Background and Overview

In an effort to expand the provision of affordable capital market products to low income groups, the Securities and Exchange Commission of Zimbabwe has been promoting use of on-line trading platforms and establishment of an alternative trading platform. The opening of accounts to facilitate on-line and mobile trading is subject to standard KYC requirements by banks. In addition, there are trading limits in place which help to mitigate against abuse of such accounts for money laundering or promoting terrorist financing.

Control Measures.

Legal Framework

The following acts and regulations govern the operation of capital markets in Zimbabwe:

- a. Securities & Exchange Act [Chapter 24:25],
- b. Asset Management Act [Chapter 24:26.],
- c. Collective Investment Schemes Act [Chapter 24:19],
- d. Money Laundering and Proceeds of Crime Act [Chapter 9:24], and
- e. Regulations on the Implementation of UNSCRs (S.I. 76 of 2014).

Inherent Risk

Purchase of shares on the stock market is by natural and legal persons.

In this regard requisite identification documents such as the National I.D. Card, Passport or Driver's License for individuals and certificate of incorporation and other registration documents e.g. CR6, CR14 for companies, letter from employer, proof of residence (utility bills), bank statements and passport size photographs, are required before one can open an account. An evaluation of the product features and controls of capital markets products revealed the following:

- a. There are set limits on purchase and sale transactions by foreigners. Transactions by foreigners is subject to Exchange Control approval,
- b. KYC documents and CDD is done on all clients particularly when one is opening a CSD account,
- c. Non-face-to-face transactions are not permitted, and
- d. Capital markets participants such as stock brokers, custodians and stock exchanges file returns with the SECZ detailing the transactions recorded and the values transacted during the period.

Risk Rating

The capital markets products ML/TR risk was rated **moderate**. Due to the nature of the product and the controls in place to monitor transaction there is moderate exposure to the ML/TF risks. In addition, all capital markets product transactions are processed through the banking system and all purchase or sale proceeds go through the bank's monitoring and control mechanisms to comply with AML/CFT requirements.

Low Value Remittances

Background and overview

The Money Transfer Agents (MTAs) are regulated by the Exchange Control Act in their operations of facilitating the sending and receipting of money into and outside Zimbabwe. Since their introduction there has been an increase in diaspora remittances to Zimbabwe. They are the source of funding to the population of parents and relatives who have the family members working in the diaspora. Their financial inclusion products include financial platforms that allow for access to the funds anywhere in the country. They have a large branch network of more than 300 branches in Zimbabwe.

Controls

Legal Framework

The following regulations are applicable to the MTAs:

- a. Money Laundering and Proceeds of Crime Act,
- b. Exchange Control Act.

Other Controls

Most of the MTAs demonstrated knowledge and understanding of the ML/TF risks that their business is exposed to. They have AML/CFT policies and manuals in place in compliance with local and international

regulations and standards. They also have in place mechanism and systems to monitor remittance transactions and report suspicious transaction report to the Financial Intelligence Unit. In addition, there are also controls in place of value of transaction per individual.

Inherent risk Findings

It was noted that since these institutions deal with cross border transactions, by association the funds sent through also go through ML/TF risk checks from countries where the funds are coming from. They also conduct proper KYC /CDD checks to comply with regulatory requirements through verification of identification documents, address of sender and receiver as well as a security question test.

Risk Rating

The remittances were rated moderate on ML/TF risks based on the CDD and controls in place to comply with the AML/CFT requirements.

Savings and Credit Products

Overview and Background

Savings and Credit Cooperatives in Zimbabwe operate under the Co-operative Societies Act [**Chapter 24:05**]. There are largely two types of SACCOs in Zimbabwe, housing and financial cooperatives which are represented in a number of sectors that include housing, savings and credit, mining, fishing, services, transport, construction, manufacturing and arts and craft. The Registrar of Cooperatives office keeps information of all registered financial cooperatives while housing cooperatives fall under the Ministry of Local Government. The Ministry of Small & Medium Enterprise and Cooperatives Development is responsible for overseeing the operations of financial cooperatives. The level of oversight is however considered weak which may heighten the risk of the SACCOs being used as a conduit for ML/TF funds.

Controls

Legal Framework

The following legal instrument provides a legal framework which regulates the activities of SACCOs in Zimbabwe:

- a. Cooperative Societies Act [Chapter 24:05] sets out the rules and regulations on forming and operating SACCOs,
- b. By-laws: rules and regulations that guide the conduct of co-operative members,
- c. Revised Cooperative Development Policy of 2005: to read in conjunction with the Act,
- d. Land Developers Bill: not yet adopted, but when it is, it will help in providing guidelines on how to develop the land, and
- e. Housing Policy: provides legal framework and strategies for co-operatives to work together.

Inherent Risk - SACCOs

Cooperatives in the country are operating in different sectors, which are Housing, Savings and Credits, Agriculture, Mining, Fishing and Collective. Predominant in the cooperatives in Zimbabwe is the housing cooperatives which has over 4000 registered housing cooperatives. Our risk assessment focused on housing and financial cooperatives. Members are drawn by common objectives or values which eliminate the threat of the SACCOs being used as a conduit for ML/TF purposes; Cross border transactions are not allowed; and Housing Co-operative Society membership is only open to natural persons as no legal person or business can be a member. Inherent risk-there have been instances of leakages in the system leading to predicate offences such as corruption, bribery and fraud.

It was also noted that there is lack of awareness on AML/CFT issues among the cooperatives members and supervisory authorities. This

has undermined the progress in the implementation of mechanism to minimise ML/TF risks such as adequate monitoring of transactions, verification of contributed funds and KYC/CDD processes.

Risk Rating

The ML/TF risk for this product was **medium**. The rating is premised on measures that have been put in place to reduce the levels of abuse of housing cooperatives for corrupt activities and the low levels of values of transactions involved in SACCOs.

CONCLUSION

The financial inclusion products overall risk was rated **low**. The assessment established that there are acceptable mitigation measures in place to minimise the threat of ML/TF risks in financial inclusion products. These include a risk assessment review of every product that is evaluated by the regulators' i.e. FIU, National Payment Systems, Securities Commission, and Bank Supervision among others.

In addition, the National Payment Systems has adequate system for real time monitoring of transactions on the payment systems where financial inclusion products transactions are conducted. They have issued guidelines and regulations on use of payment systems, financial inclusion and reporting of abuse of the payment platforms through financial inclusion products is recorded.

RECOMENDATIONS

Recommendations for mobile financial services products include:

1. Use of the photo identification system on registration of mobile financial users to avoid identity cloning and abuse by criminals. Continuous training on AML/CFT risk management practices and increase awareness to all participants of the mobile financial services platform providers and products developers.

2. Enforcing the AML/CFT regulatory requirements through penalization of non-compliance with AML/CFT requirements by mobile financial service providers.

Recommendations for the microfinance sector

1. AML/CFT training and workshops for registered microfinance institutions and aspiring MFIs.
2. Development of AML/CFT guidelines for the microfinance institutions.
3. To conduct ML/TF risk inspections to continuously support the MFIs on their knowledge and understanding of AML/CFT. MFIs should be directed to report on suspicious transactions to the FIU.

Recommendations for banking Products

1. Training on enhancing the AML/CFT risk assessment on Financial Inclusion Products should be on-going to ensure that risk assessment is applied on new trends. The regulators and supervisors where financial inclusion products are used should publish guidelines on AML/CFT to inform other financial inclusion development partners and promote awareness.

Recommendations for Housing Cooperatives

1. Collaborative workshops among cooperatives, supervisors, regulators and financial institutions to assist each other in coming up with adequate system to minimise the threat of ML/TF risk.
2. Automation and computerization of the Registration and implementation of the cooperatives database and also integration with relevant financial service providers to provide an audit trail on the activities done by the cooperatives.
3. Training and awareness including inspections so that they are able to improve their understanding of AML/CFT and be able to submit suspicious activity / transaction reports to the FIU.

Recommendations for low value remittances

1. To promote AML/CFT awareness and improve its implementation and adoption there is need to continuously train the MTA on AML/CFT issues.
2. There is also need to conduct collaborative industry workshop to allow for financial system players to share information on the risks and challenges that emanate for the financial system and the ML/TF risk involved.
3. In addition, collaborative inspections will assist in determining areas of improvement on ML/TF risks for the MTAs.

Recommendations for Capital Markets

1. There is need for capital markets players to have a AML/CFT compliance officer who enforces implementation and adoption of MAL/CFT policies as well as to ensure compliance with AML/CFT requirements.
2. On-going training, awareness and on-site inspections are relevant to identify leakages and suggest necessary improvements to monitor and enforce AML/CFT.

CHAPTER 16

TERRORIST FINANCING (TF) RISK ASSESSEMENT

KEY FINDINGS

The 2019 National TF Risk Assessment depicts the more recent overview of Zimbabwe's Terrorist Financing threat and vulnerability as well as the terrorism threat. The World Bank Tool which was used co-opted Terrorism Threat, unlike the tool which was used in 2015.

Findings of the report were almost similar to that of the previous NRA with the country retaining its low risk status. This was mainly attributed to mechanism which were put in place by law and the state security agencies. Despite the low risk ranking, the report recommends Zimbabwe to capacitate stakeholder who deal with TF and Terrorism, as well as closing the legislative gaps which were cited in the report.

Charitable organizations and legal arrangements such as Trusts that only operate domestically face a low risk of TF and PFWMD abuse. However, there continues to be concern that TF risk for the charitable organizations that are headquartered in high risk regions where ISIS and its regional affiliates, Al Qaeda and its regional affiliates, Al-Shabaab, and other terrorist groups are most active, such as Turkey, Pakistan, Somalia, Syria, and Saudi Arabia.

Zimbabwe employs a comprehensive interagency approach to counter terrorist financing and proliferation financing. This includes using law enforcement, financial sanctions, and other financial measures to dismantle and disrupt terrorist financing networks, closing existing gaps in the country's financial system that might be used to facilitate TF and PFWMD. The country adopted a secure framework that effectively deny terrorist groups the ability to access the international financial system to raise, move and use funds within or outside the country through Zimbabwe as a conduit.

OVERVIEW OF ASSESSMENT

Terrorist Financing (TF) Risk Assessment seeks to identify and understand Zimbabwe's TF threats and vulnerabilities. When Zimbabwe was assessed in 2015, the country did not have any legislative framework on proliferation of weapons of mass destruction because authorities maintained that there was any proliferation which was evident. For the 2019 risk assessment exercise, the following are the objectives of TF risk assessment:

- To identify the weaknesses and gaps in the country's ability to combat terrorist financing. To identify the overall vulnerability of the country to terrorist financing.
- To come up with priority actions that will improve the country's ability to combat terrorist financing.
- To assess how Zimbabwe is susceptible to terrorist threat.

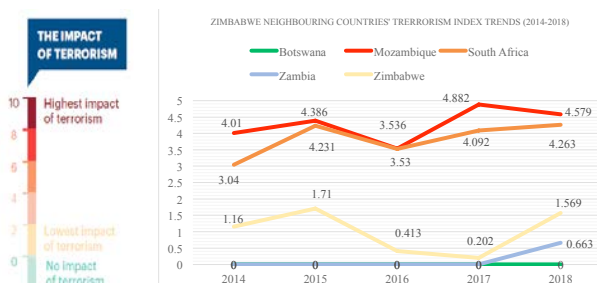
The SADC region is generally a terrorism low risk region. Studies by the Institute of Economics and Peace in conjunction with the Maryland University revealed that most SADC countries are low terrorism risk countries with a score of **2.0** or less, with the exception of Mozambique and South Africa with least terrorism index of **3.0** for the period 2014 to 2018.

Zimbabwe shares borders with South Africa, Mozambique, Zambia and Botswana. The four neighboring countries are its major trading partners and biggest population of Zimbabwean emigrants in Africa is within its neighboring countries. Terrorism index for Zimbabwe and its neighboring countries are shown below.

An analysis for Zimbabwe's neighboring countries terrorism index reveals that its terrorism index trend depicts that of its neighbors South Africa and Mozambique. Where the two countries' terrorism index increased or decreased Zimbabwe's terrorism index followed a similar trend which may opinion that South Africa and Mozambique might

have an influence on Zimbabwe due to socio-economic ties. However, notwithstanding similarities in terrorism index trends, Zimbabwe has lowest impact on terrorism. As indicated in our previous NRA the Module and Sub Committee followed a coordinated approach to assessment to TF and PFWMD.

Figure 16. 1 Terrorism Index **Data Source: Institute of Economic and Peace**



This approach used the following key concepts:

- Threat:** A threat is a person, group of people, or activity with the potential to cause harm to, for example, the state, society and the economy. In the TF and PFWMD context this include terrorist groups and their facilitators, as well as radicalized individuals, seeking to exploit Zimbabwe and Zimbabwean financial system to raise, move and use funds.
- Vulnerability:** vulnerability is something that can be exploited to facilitate terrorist financing, both in the raising of funds for terrorist networks and the moving of funds to terrorists and terrorist organizations and for the financing of proliferation for weapons of mass destruction. It may relate to a specific financial product used to move funds, or a weakness in regulation, supervision, or

enforcement, or reflect unique circumstances in which it may be difficult to distinguish legal from illegal activity.

- **Consequence:** Not all TF and PFWMD methods have equal consequences. The methods that allow for the greatest amount of money to be raised or moved most effectively present the greatest potential TF and PFWMD consequences.
- **Risk:** Risk is a function of threat, vulnerability and consequence.

Throughout the period under review from 2015 to 2018 potential TF and PFWMD threats, vulnerabilities and risks were identified, analyzed and evaluated in the following manner:

- Identifying, through a review of criminal prosecutions, designations, and financial institution reports
- Comparing the above information with intelligence reporting to validate or refute the information.
- Analyzing how the particular characteristics or circumstances of financial products, services, or other entities facilitate the raising or movement of funds on behalf of terrorists or terrorist organizations.
- Assessing the extent to which domestic laws and regulations, law enforcement investigations and prosecutions, regulatory supervision, and enforcement activity and international outreach and coordination mitigate identified TF and PFWMD threats and vulnerabilities.

Based on the data collected during the 2019 risk assessment period, there are no known terrorist activities within Zimbabwe. However, Zimbabwe takes cognizance of the regional and global TF perspective. The country is aware and alert of activities happening in Mozambique's Cabo Delgado region and DRC as well as the movement of foreign terrorist fighters, displaced from Syria looking for countries to hibernate.

DETAILED FINDINGS

Terrorist Financing Threat

Funds generated domestically for acts of terrorism at home

Since last National Risk Assessment there are no cases which were recorded on funds generated domestically for terrorist activities on the home country. This also entails that there were no prosecutions, confiscations and seizures. Therefore, the terrorist financing threat ranking is low. The low ranking is attributed to enhanced monitoring by Zimbabwean authorities.

Funds generated domestically for acts of terrorism abroad

During the period under review, there were no cases recorded on funds generated domestically for acts of terrorism abroad. On this aspect Zimbabwe's ranking is low.

Funds generated abroad for acts of terrorism at home

There were two suspicious transaction reports which were raised where it was assumed that funds were generated abroad for terrorism activities at home. These were disseminated to the law of enforcement agencies. In one of the case, funds were received from a high risk jurisdiction such as the Middle East. Further investigations of the cases revealed that they were all false positives. There was no prosecution and conviction therefore for this variable Zimbabwe is rated low.

Funds generated abroad for acts of terrorism abroad (transit Financing)

Though Zimbabwe had a multicurrency economy which may have posed the country's financial systems to a threat of being used as conduit of transmitting terrorist funds, and store value, there are no cases recorded in which the financial system was abused. Currently, Zimbabwe is no longer a cash intensive economy as most transactions are now electronic. Due to the fact that most transactions are now electronic, all transactions are monitored. Data which was considered

for this risk assessment proved that Zimbabwe is not being used as a conduit for Terrorist Financing. Therefore, the rating for transit financing is low.

Sources of Terrorism Financing

Legitimate sources (NPOs and Other Legitimate Sources)

Two (2) NPOs were investigated for suspected financing of terrorism during the period under review. The investigations proved that the two cases were false positives. There were also no cases recorded where other legitimate business were used to fund terrorism activities. The rating for this aspect was therefore considered low.

Illegitimate sources (organized crime, drugs, trafficking etc)

Of all the predicate offenses which were investigated, there were no cases which were linked to financing terrorism. The rating for this aspect was therefore considered low.

Channels

According to the International Monetary Fund 2018 report titled "Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?", Zimbabwe has the world's second largest informal economy as a percentage of its total economy with a score of 60,6 percent, after Bolivia which topped at 62,3 percent. However, since Zimbabwe is less cash intensive and that the monetary authorities are promoting electronic payments, most informal sector payments remains regulated and closely monitored as they go through regulated channels. For the period under review there was no data which proved that the formal regulated channels were being abused for terrorist financing. This gives Zimbabwe a rating of low.

Terrorism financing vulnerability assessment

Legislation

Zimbabwe has relevant legislation which criminalizes terrorism financing.

The pieces of legislations are Money laundering and proceeds of crime act (2018) which criminalize TF under section 32, suppression of Foreign and International Terrorism Act, S1 76 of 2014 (UNSCR 1267/13730, SI 56 of 2019 (UNSCR 1540 and successor resolutions which deal with PFWD. The legislative framework is therefore considered adequate to cover TF and PFWD.

Intelligence gathering

Intelligence gathering and inter-agency cooperation is fostered and coordinated through specialized National Task Force and The Sub-Committee on Counter Financing of Terrorism, Counter Terrorism Units in the national intelligence services, police and the military.

Financial Intelligence Unit

The financial intelligence unit is the centre for receipt and analysis of STRs. During the period under review Zimbabwe received two STR related to financing of terrorism. These were referred to relevant state agencies for further investigations and all proved false positive

International cooperation

Zimbabwe cooperates with regional and international organizations and rides on mutual legal assistance, extradition agreements, Interpol agreements, and service to service cooperation to foreign FIU, and National Intelligence Service to foreign Intelligence Service. Further to that, Zimbabwe also so undertakes human resources exchange programs in line with the FATF and ESAAMLG's initiatives on TF compliance requirements. One such program was Zimbabwe's staff exchange program with Kenya in August 2019, whose thrust was focused on strategies and methodologies in detecting Terrorism Financing suspicious transactions or activities (STR/A) and TF transaction analysis thereto.

Political Environment

There is political will in mitigating the risk of terrorism and its financing by the Zimbabwean authorities. This is evident through allocation of financial and material resources to capacitate AML/CFT stakeholders. The establishment of the Anti-Corruption Unit in the President's Office, Counter Terrorism Unit as well as the establishment of The Assets Forfeiture Unit under the National Prosecution Authority shows the commitment of the political leadership in fighting against terrorism and its financing.

NPO sector Zimbabwe has only one thousand three hundred (1300) NPOs which now have been assessed using the Risk Based Approach. The size of the sector is now estimated at 0.5% of the GDP a marked decrease from last NRA assessment due to a depressed economic environment. There estimated \$40 million United States Dollars which goes through NPOs and it comprises of \$20 million from churches, \$10 million dollars from the mosques and \$10 million from NGOs. Although no terror attacks have been experienced in Zimbabwe, the huge amounts of cash circulating in these NPOs indicate potential source of financing. Investigations carried out by law enforcement agencies on the reported STRs have revealed that no NPOs are being abused for TF purposes. Zimbabwe's vulnerability with regard to terrorism and its financing from the NPO sector is low.

CONCLUSION

Overall Terrorism and Terrorist Financing threat in Zimbabwe is rated low given that there are no known Terrorism incidents or known Terrorist and Financing activities thereto. Terrorist Financing STRs analyzed and subsequently investigated proved to be false positives. As such, there are no TF or Terrorism related prosecutions.

CHAPTER 17

ENVIROMENTAL CRIMES MONEY LAUNDERING RISK ASSESSMENT

Summary of Findings and Overview

The Environmental Crime ML/TF Risk Assessment (ECRA) is a standalone assessment exercise (i.e. separate from the main NRA exercise) yet part of the overall Zimbabwean efforts and initiatives to assess ML and TF risk in the country. The main objective of this specific assessment of ECRA was to identify, understand and assess the risk of money laundering and terrorist financing that could be emanating from environmental crime with a view of coming with measures to mitigate the identified risk.

This assessment was conducted through;

- Identifying the main environmental crime threats in the country, as well as to their extent and consequences with a focus on the financial aspect. Assessing the country's vulnerabilities to ML/TF arising from environmental crime, as informed by available related ML and TF controls, as well as the country's related legal and regulatory framework.

Accordingly, the assessment results, as in most of such programs, should assist stakeholders in drawing up and implementing mitigating measures applying the Risk Based Approach. In addition, the results of the Environmental Crime Risk assessment are also to be used to direct policy measures, improve data collection and keeping up to date statistics on AML/CFT threats and vulnerabilities to wildlife.

The overall risk for ML by environmental crime was assessed to be **Medium Low**. This was a combination of a low level of threat as well as a medium level of vulnerability as shown on the heat map below.

The Extraction Sector poses the greatest ML threat specifically gold mining and the greatest vulnerability for the sector arises from a lack of a consolidated ML strategy for tackling environmental crimes. The assessment, therefore, recommends the collection and maintenance of statistics to assist in the crafting and direction of a relevant strategy.

Figure 17. 1 Heat Map for ML risk in the Environmental Crimes Sectors.

Threat Level	High			
	Medium			
	Low			
		Low	Medium	High
	Vulnerability Levels			

Background to the Assessment

In 2015, Zimbabwe held its first National Risk Assessment, whose modules did not have a comprehensive cover of the threat and vulnerabilities of Environmental Crime. In the 2015 assessment, emphasis was placed only on the Wildlife Sector, which even then, was part of Designated Non-Financial Businesses and Professions (DNFBPs) Module 7, whilst other environmental crimes remained unassessed. The results from the assessment were that risk for ML, arising from and through the Wildlife Sector, was low. This low rating was not well understood by most cooperating partners in the fight against ML/TF, both regionally and internationally.

The World Bank, as technical advisor to Zimbabwe's National Risk Assessments since 2015, offered support to the country to carry out an Environmental Crime Risk Assessment under a new and separate module. This support was offered in a form of a collaborative workshop of experts, which was held from the 2nd to the 4th of October 2019, in Kariba, Zimbabwe.

The list of domestic experts who attended the seminar where from the following agencies;

- Zimbabwe Police Services' Minerals Flora and Fauna Unit,
- Zimbabwe Police Services' Asset Forfeiture Unit,
- Zimbabwe Revenue Authority Customs Division,
- the National Prosecuting Authority,
- Environmental Management Agency (Risk Division),
- Ministry of Environment, Tourism and Hospitality Industries,
- the Zimbabwe Parks and Wildlife Management Authority, and
- the Financial Intelligence Unit.

Though attendees at the training workshop were drawn from both Zimbabwe and Zambia as a cross border and regional collaborative efforts, the data and information that was used for the report emanated from domestic experts, who were present. The workshop was facilitated by officials from the World Bank, as technical advisors, as well as from the United Nations Office on Drugs and Crime (UNODC), with a Wildlife Crime expert, from Kenya's Financial Intelligence Centre. The role of the World Bank Group experts and their associates was to merely offer technical support in the form of expertise, guidance, as well as the template for assessment. The list of World Bank Group Officials involved is attached in **Appendix 1**.

It should be emphasized that, though this module is immediately not included as a Chapter of the main 2019 NRA document, will however, be incorporated as part of the country's comprehensive assessment of

all ML/TF risks within her economy. In this regard, though independent and separate, it is part of the 2nd AML/CFT National Risk Assessment.

Environmental Crimes in Zimbabwe

In Zimbabwe, most of the environmental crimes fall under the Parks and Wildlife Act 1975 (200), however, there are other statutes that govern different environmental crimes in the country, in addition to the Parks and Wildlife Act. The environmental crimes in the country were identified as follows:

Wildlife Crimes

Wildlife crimes identified in the assessment were crimes that contravene Sections 24; 33; 38; and 59 of the Parks and Wildlife Act Chapter 20:14, as well as Statutory Instrument 362 of 1990 Parks and Wildlife (General) Regulations. These are crimes involving poaching, hunting, and illegal possession of wildlife and wildlife products, and other crimes related to fauna.

Forestry Crimes

Crimes under this category are criminalized in terms of Section 78 of the Forestry Act Chapter 19: 05 and focus mainly on flora and the most prevalent one is forestry logging. Other pieces of legislation include; the Environmental Management Act Chapter 20: 27 and related Statutory instruments, such as; Prevention of Fires that is regulated in terms of Section 15 (1;2;3), Section 17 (1), and Section 18 (4), of Statutory Instrument 2007; and Section 20 (1) of S.I. 2007 regulates the Protection of Wetlands, Public Streams and other certain lands.

In Zimbabwe, cases of logging mostly relate to cutting down of trees, for domestic consumption as firewood, without permits, and land clearing for agricultural purposes.

Illegal Fishing Crimes

Zimbabwe criminalizes unsanctioned fishing in terms of Section 59

(2) of the Parks and Wildlife Act Chapter 20: 14, and known criminal activities involve fishing without a permit, the use of prohibited nets, fishing lines and unauthorized fishing boats and wooden canoes.

Hazardous Waste Crimes

Offences of hazardous substances are criminalized in terms of Statutory Instrument 268 of 2018. Water and Effluent offences are provided for in terms of Section 60 (1) and section 57 (1&2) of the EMA Act, as read with section 5(1) of S.I. 6 of 2007. On the other hand, Air Quality is regulated in terms of Sections 63 & 64 of the EMA Act, section 19 (3) of S.I. 72 of 2009 and Solid Waste is managed in terms of sections 83 (1) and 70 of the EMA Act.

In Zimbabwe, stakeholders lack awareness of hazardous waste management issues, and as such, crimes in this sector are rarely reported. The major perpetrators of hazardous waste crimes were identified as municipalities and hospitals, who dump electronic and chemical waste, without proper waste management.

Extraction/Mining Crimes

Crimes identified in the assessment were crimes that contravenes the Mines and Minerals Act 1961, especially illegal dealing in gold and precious minerals and stones. Section 3(1) of the Gold Trade Act, Chapter 21:03 was identified as having the majority of crimes linked to mining or extraction crimes, while fewer cases were identified that contravened the Precious Metals and Stones Act. There were, also few reported cases, of contravention of section 97 (1) of the EMA Act, that deals with Environmental Impact Assessment.

Assessment Methodology

A specially designed template by the World Bank Group which closely mirrors the definition of risk as threat plus consequences was used to arrive at both threat and vulnerability levels of wildlife crimes in Zimbabwe. The tool consists of two main segments. The first is for

threat assessment, and through the population of data and statistics, a level of threat was inferred by the experts. Five major environmental crimes discussed below, were assessed for their ML threat. The second segment of the template utilized mainly input from experts and officials on predetermined variables to assess the levels of national vulnerability to wildlife crime. A combination of both the threat and the vulnerability analysis was used to arrive at the overall environmental crime risk level.

The assessment of the environmental crimes in Zimbabwe was carried out covering the period 1st January 2014 to 31st December 2018. The assessment made use of quantitative data that was collected from environmental sector law enforcement agencies and other co-operating partners, especially Non-Governmental Organizations, as well as open sources. Where insufficient empirical data was available, the assessing team made use of qualitative data. The data was then populated into an Excel Template, provided by the World Bank as technical experts. The Excel Template, with its imbedded formulae, produces the country's final ML/TF threat and vulnerability results.

The assessment team also made use of data from other national risk assessment modules, especially Module 2, which deals with national threat analysis.

Threat Assessment

Key Findings-Threat Analysis

The national money laundering threat for Zimbabwe, emanating from environmental crimes, was assessed to be **Medium**. This is the composite rating of threat averaging across all the environmental crimes that were assessed in this exercise. The individual ratings that make up this overall rating is composite of the following sectoral results;

Table 17. 1 Summary of Ratings in threat analysis.

Sector	Assessed Rating.
Wildlife Crimes ML Threat-	Medium
Forestry Crimes ML Threat	Low
Fishing Crimes ML Threat	Low
Hazardous Waste Crimes ML Threat	Low
Mineral extraction Crimes ML Threat <ul style="list-style-type: none"> • Gold rated - High. • Precious Stones rated - Low 	Medium
Overall Risk Rating	Medium

Though to a large extent, the results given above are indicative of the level of threat, it should be pointed out that the assessment suffered limitations of lack of statistics. Going forward, the various agencies and stakeholders are encouraged to collect and maintain relevant statistics.

Analysis of Zimbabwe's Major Environmental Crimes

Parks & Wildlife Act

Zimbabwe is home to the second biggest African elephant population, rhino and ground pangolin. Poaching was identified as a major threat to wildlife, however, the poaching, in most cases, was for bush meat consumption. Organized crime has been noted to be on the increase since the year 2008 and is posing a serious threat to wildlife in the country. The assessment identified Zimbabwe as a source country for wildlife and wildlife products, and these are being exported to the East Asia market, especially China and Hong Kong. The country has a comprehensive legal framework to combat illegal wildlife trade, some loopholes, however exist, which affect its effectiveness. The Parks and Wildlife Act, criminalizes the unlawful killing of wildlife, possession or dealing in Specially Protected Species (SPS), such as pangolin, rhino and elephants, and possession or dealing in raw ivory. Table 2.1 below provides Wildlife Crime Statistics.

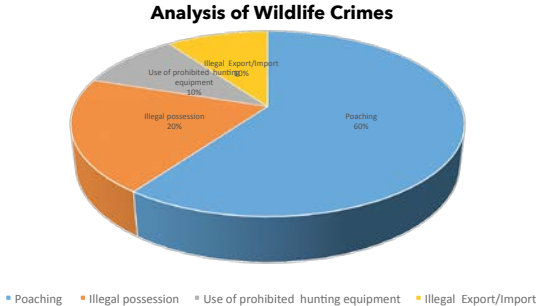
Table 17.2 Wildlife Crimes Statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED
PARKS & WILD LIFE ACT	2014	380	380	360	210	400,000.00	.	.	.
	2015	510	520	490	250	785,000.00	.	.	.
	2016	530	460	480	220	1,200,000.00	500,000.00	500,000.00	.
	2017	280	230	220	80	2,587,500.00	23,180.00	22,000.00	.
	2018	370	310	300	140	3,417,751.00	61,025.00	44,000.00	.
TOTAL		2070	1900	1850	900	8,390,251.00	584,205.00	566,000.00	.

Total number of cases received during the period 2014 to 2018 was 2 070, with a yearly average of 414 cases being reported. Out of the 2 070 cases reported, 1 900 people were arrested, which translated to an arrest rate of 91.8%. Of the 1 900 people arrested, 1 850 people were prosecuted, resulting in a prosecution rate of 97%. A total of 900 cases, out of the 1 850 prosecuted cases, resulted in convictions, giving a conviction rate of 48.6%. The conviction rate is low as some cases are still under trail.

The total value, in monetary terms, of the offences committed, was US\$8,390,251.00 and only US\$584,205.00 was recovered, which translates to a 7% recovery rate. Of the recovered amount, US\$566,000.00 was seized, and the seized amount as a percentage of the recovered amount was 97%. The low value in the recovery rate is due to the fact that, recoveries in most cases were trophies or carcasses, that tend to have low values. In other cases, the lack of enforcement of the compensatory mandatory payments, by the judges, and the inconsistency and sometimes disproportionality in the judgments, resulted in reducing the amount of possible recoveries. In addition, in most cases, only the first line offenders are arrested and no recoveries or confiscations can be done. Intelligence information points out that the number of cases reported, account for only a third of the cases related to Wildlife crimes, and prejudice to the country is estimated to be three times more than the value provided.

The diagram below depicts the wildlife crimes being committed in Zimbabwe in percentage terms.

Figure 17.2 Summary of Wildlife Crimes

Trends/Sectors and Jurisdictions Involved

Zimbabwe was identified as a source, transit and destination country. This was revealed through information obtained on reported cases, accused persons and DNA tests on recovered products. Trends in some of the reported cases, indicated that both locals and foreigners, were arrested trying to find buyers for their pick of pangolins or elephant tusks. Some of the methods of concealment were that the accused persons, change form of the wildlife products, e.g. some products were made into powder, which can be easily transported or concealed in cross border trucks, hidden in truck compartments. The majority of wildlife and its products are destined to Hong Kong, China, Vietnam and Japan, through South Africa's Durban and Cape Town ports. Asian nationals were identified as the main actors in organized wildlife crimes in the country.

There are no significant proceeds generated in crimes under Parks and wildlife Act in Zimbabwe, but there is a possibility that, better proceeds are realized in destination countries, especially Asian countries. Poaching and illegal wildlife trafficking has cross border implications. Most of the trophies are destined beyond the borders of Zimbabwe.

The ML threat of Wildlife Crimes is rated at **medium low**

Forestry Crimes Offences and Origins

Three statutes regulate the forestry sector in Zimbabwe; the Forest Act of 1949; the Environmental Management Act of 2002; and the Communal Lands Forest Produce Act of 1987.

In Zimbabwe, there have been isolated cases involving crimes of logging or illicit forestry activities. Illegal logging in Zimbabwe is driven mainly by illicit production of charcoal, harvesting of firewood and clearing of land for agricultural purposes. Currently there are no statistics for illegal logging for commercial purposes; however, there are cases where people are arrested for cutting down of trees, for domestic consumption, without permits.

The ML threat of forestry crimes is rated as **very low**.

Fishing Crimes

Zimbabwe criminalizes unsanctioned fishing, under the Parks and Wildlife Act; however, there are few reported cases of fishing crimes. The few reported cases involved individuals residing near huge water bodies where fishing crimes could be committed. These individuals are usually caught catching fish using prohibited nets and fishing lines, as well as without fishing permits. The proceeds generated under this crime are mainly for consumption and not for commercial trade.

The ML threat of fishing crimes is rated very **low**.

Hazardous Waste Crimes

Zimbabwe is a minor producer of hazardous waste, and its annual waste production amounts to less than one million tons. There is evidence of companies and public organizations disposing of toxic waste in the open, with municipalities and hospitals, noted to be dumping electronic and chemical waste, without appropriate treatment. Mining companies are, also, big producers of toxic waste, which is often

dumped illegally, polluting rivers and having a detrimental impact on local populations. There is, however, no evidence of willful importation of e-waste for dumping in Zimbabwe, and there exists lack of awareness of stakeholders, partly driven by a lack of reliable data and resources, regarding disposal and management of e-waste in Zimbabwe.

The country lacks adequate facilities and resources to handle hazardous waste and only a few suitable facilities exist for safe storage of hazardous waste, which are owned by private companies. The legislation regarding hazardous waste falls under the Environmental Management Act 2002 as read with Statutory Instrument 268 of 2018. Very few cases have been reported on hazardous crimes and no statistics of proceeds generated from these crimes could be obtained.

Given that Zimbabwe produces very little hazardous waste per annum, with limited cases reported, which generated criminal proceeds, **the ML threat of Hazardous Waste Crimes was rated as very low.**

Extraction/Mining Crimes

Crimes under this category contravene the Mines and Minerals Act 1961, through illegal dealing in gold, precious minerals and stones. The Environmental Management Act of 2007 strengthened this legislation by providing stronger environmental provisions. The Zimbabwean law does not, however, explicitly differentiate between industrial (largescale) and artisanal (small-scale) mining. Informal mining, by artisanal miners, sometimes illegal, puts a threat on the environment, through alteration of the local ecosystems and use of chemical products. It is estimated that there are roughly 500,000 small-scale miners in Zimbabwe, which account for roughly half of the gold production of the country. A large portion of this production is sold on the black market (potentially more than half) and South Africa and Dubai are thought to be the main countries of export. The Gold Trade Act accounts for more crimes linked to mining or extraction crimes.

For purposes of this assessment, the extraction mining crimes given

their size, diversity and breath were broken down into two main sections for analysis; a section for gold and that for precious stones.

Gold

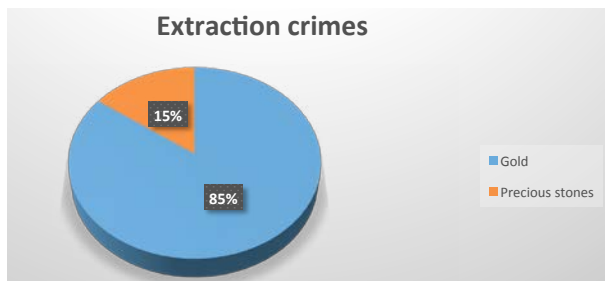
Dealing or possession of gold, without a permit or license, is provided for in terms of Section 3(1) of the Gold Trade Act, Chapter 21:03. Table 2.2 below provides statistics of contraventions of the Gold Trade Act.

Table 17.3 Gold Trade Act Criminal Statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED	FINES PAID
GOLD TRADE ACT	2014	430	480	430	120	50,000.00	50,000.00	20,000.00	20,000.00	
	2015	540	580	530	150	144,000.00	144,000.00	130,000.00	100,000.00	
	2016	460	460	430	80	205,000.00	205,000.00	200,000.00	150,000.00	
	2017	330	350	320	50	316,000.00	316,000.00	177,000.00	177,000.00	
	2018	420	310	290	50	913,058.00	913,058.00	500,000.00	200,000.00	
TOTAL		2180	2180	2000	450	1,628,058.00	1,628,058.00	1,027,000.00	647,000.00	

Total number of cases received during the period under review was 2 180, with a yearly average of 436 cases reported. Of these reported cases, 2 180 people were arrested, translating to an arrest rate of 100%. Of the total arrested, 2 000 people were prosecuted, resulting in a prosecution rate of 92%. A total of 450 cases resulted in convictions, giving a conviction rate of 22.5%. The total value of the proceeds generated from these crimes was US\$1,6 million, and was all recovered. Of the total recovered amount, US\$1,027,000.00 was seized and the seized amount as a percentage of the recovered amount was 63.8%. The state managed to confiscate US\$647,000.00 which translated to 63% of the seized amount.

Figure 17.3 Summary of Extraction Crimes



Trends/Sectors and Jurisdictions Involved

The trends in gold dealing involve illegal mining, illegal selling and possession by unregistered persons and smuggling done by both registered and unregistered persons. The Zimbabwe Police Services' CID Minerals, Flora and Fauna Unit [MFFU], is the law enforcement Unit responsible for cases of illegal dealing in gold, as well as cases of general smuggling. Zimbabwe's gold mining sector consists of many players, where the majority are not registered with the Ministry of Mines.

A recommendation from the First Zimbabwe NRA Report of 2015, was

to plug leakages in the gold sector, and as from year 2013, all registered miners are now being monitored by the law enforcement agencies, who ensure that all gold obtained from the stamp mills is delivered to Fidelity Printers and Refiners, a subsidiary of the Reserve Bank of Zimbabwe, which, in terms of the law, is the sole exporter of gold in the country.

A number of arrests were made on individuals trying to smuggle gold out of the country, and for those who succeeded to smuggle the gold, proceeds were used to fund offshore accounts, which were then later used to import goods, such as fuel and food stuffs to stock retail shops and mushrooming tuck shops, as well as the purchase of electrical gadgets, vehicle spare parts and other commodities for resale in Zimbabwe. Proceeds from gold dealing were noted to be laundered through various sectors of the Zimbabwean economy. Gold dealing is an organized crime and has cross border effect, as seen from the trends in smuggling and funding of offshore accounts.

In view of trends and methods in gold dealing, it is estimated that Zimbabwe could be losing revenue amounting to over **ZWL1, 8billion** annually, and therefore, **the ML threat of illegal dealing in gold is rated high.**

The Precious Stones Act (Illegal Dealing in Precious Stones)

Dealing or possession of precious stones without a permit or license, are criminalized in terms of Section 3 (1) of the Precious Stones Act, Chapter 21:06. Table 2.3 below provides statistics of contraventions of the Precious Stones Act.

Total number of cases received during the period under review was 340, with a yearly average of 68 reported cases. Of the cases reported, 375 people were arrested, which translated to an arrest rate of 110.3%. Of the total people arrested, 330 people were prosecuted and this was a prosecution rate of 88%. A total of 104 cases resulted in convictions, giving a conviction rate of 31.5%. Total value of the criminal proceeds was US\$558,000.00 and US\$530,000.00 was recovered, translating to a 94.98% recovery rate.

Table 17.4 Precious Stones Crimes Statistics

OFFENCES	YEAR	NO. OF CASES	ARRESTED	PROSECUTED	CONVICTED	VALUE INVOLVED	VALUE RECOVERED	AMOUNT SEIZED	AMOUNT CONFISCATED	FINES PAID
PRECIOUS STONES ACT	2014	70	80	70	20	.	.	.	.
	2015	80	100	80	30	.	.	.	.
	2016	80	75	70	30	.	.	.	.
	2017	50	50	50	14	513,000.00	500,000.00	.	.	
	2018	60	70	60	10	45,000.00	30,000.00	.	.	
TOTAL		340	375	330	104	558000	530000	0	0	

Trends/Sectors/Jurisdictions Involved

The trends noted from reported cases, were mainly of employees who connived to steal diamonds. In the previous NRA report, there were a lot of proceeds being generated under the Precious Stones Act, through diamond dealings. Zimbabwe has closed most of the diamond mines, and leaving only two state owned entities in the Chiadzwa Diamond fields. This had the effect of significantly plugging off illegal dealings and smuggling of the precious stones. There is, however, intelligence information, suggesting that there are syndicates of illegal miners invading the diamond fields by night, and panning for diamonds, which are being sold on the black market, and smuggled out of the country.

The proceeds being generated are estimated to be low; however, taking into consideration the low leakages, the country could have lost \$400 million during the period 2014 to 2018. Given that Zimbabwe has undertaken stringent measures to plug off any precious stones leakages, **the ML threat in Illegal Dealing in precious stones is rated low.**

Vulnerabilities

Key findings on overall vulnerabilities

The vulnerability of the environmental sector to ML/TF was overall considered **Medium** with a final vulnerability score of **0.54**.

This national vulnerability rating was determined through the assistance of a vulnerability assessment tool, which took into consideration mainly the following four factors:

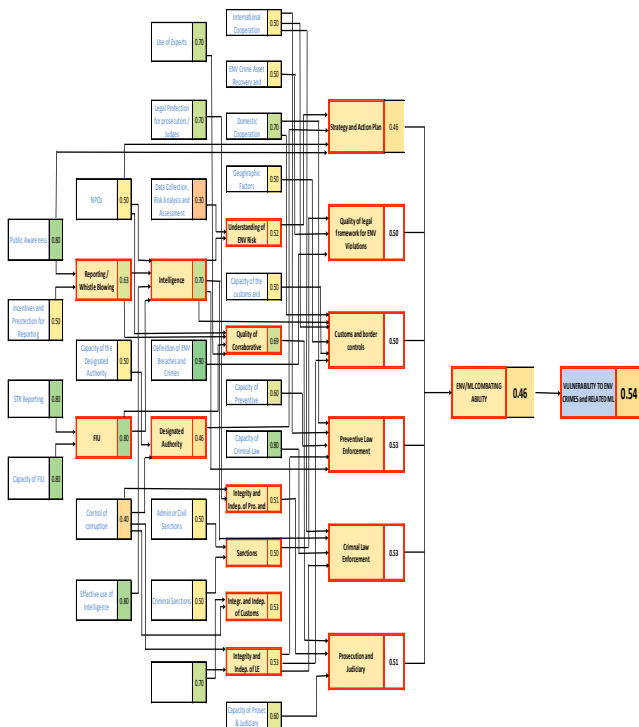
- An assessment of individual variable vulnerability to ML in the sector.
- The linkages and interconnection between the various variables that were assessed.
- The relative weights of the input and intermediate variables.

- The defined conditions (**prerequisites**) for intermediate variables.

The formulas that have been built into the assessment tool make it possible to combine the assessment results of input variables, and calculate the ratings for intermediate variables. Each variable in the module is also assigned a weight, and the underlying relationships between the variables are conditioned by prerequisites. The working group of experts assigned ratings to the weights and prerequisites (pre-conditions), which were applied to the assessment tool to ultimately produce the overall sector vulnerability to ML.

A summary on the variables, and their linkages leading to a determination of the final vulnerability score for the environmental sector, is as shown in figure 3.1.

Figure 17.4 Network Structure of Environment Sector National AML/CFT Vulnerability



Detailed Vulnerability Findings for the Environmental Sector

(a) *Data collection, risk analysis and assessment*

The data collection, risk analysis and assessment, for the wildlife sector were considered to be low at a rate of 0.3. This was arrived at after taking into consideration that different environmental and wildlife agencies collect sector statistics independent of each other, and there is no central point where the statistics are collected and collated. There is no central database, and therefore, sector information is disjointed.

The environmental agencies' current focus has been on recovering the items/trophies involved, be it tusks, ivory or precious minerals, but proceeds of crime were not being traced. Recently, however, a representative from the sector has been seconded to the AML/CFT National Taskforce, and information is slowly beginning to be collected systematically

(b) *Capacity of Designated Authorities*

The capacity of designated authorities was rated as **Medium** with a score of **0.50**. In Zimbabwe, each independent designated authority in the sector, keeps and maintains its statistics, which is the basis for guiding policy framework. There is, however, no single coordinating body for the sector; each agency formulates its own strategies, necessary to its jurisdiction.

(c) *Definition of Environmental Breaches*

This variable was rated as **Very High** at a score of **0.8**. The country's legal framework is such that each environmental agency has its own Act of Parliament that is the Environmental Management Act, Parks and Wildlife Act, Mines and Minerals Act and the Forestry Act. These pieces of legislation have clearly defined environmental offences. The legal framework is also influenced by international obligations, such as CITES, the Convention on Biological Diversity, etc. and Zimbabwe is a signatory to most of the conventions on wildlife, forestry, Kimberley

process and general environmental crime.

(d) ***Administrative or Civil Sanctions***

Administrative or civil sanctions are mainly for breaches of the predicate environmental offences, and this variable was rated **Medium**, at **0.5**. This was because sanctions imposed are minor (the notion that an environmental crime cannot be equated to, say for example, murder case), and that the sanctions, in certain instances, are not directly imposed by the environmental agency, but have to be initiated through the police, after culprits are handed over to the police.

(e) ***Criminal Sanctions***

Rating for this variable was **Medium** at a score of **0.5**. For most of the Acts on environmental crimes, the sanctions are prohibitive but are, however, subject to the discretion of the Presiding Officer. This discretion afforded to the Presiding Officer, has in most cases, resulted in minor sanctions being imposed on environmental criminals. For Forestry and EMA, the fines are too low. After a cost-benefit-analysis (CBA), a potential culprit would rather engage in crime, as the benefits far outweigh the consequences.

(f) ***Environmental Crime Asset Recovery and Management***

The environmental crime asset recovery and management variable was rated as **Medium**, at **0.5**. For environmental crimes, culprits are handed over to the police, who compile criminal dockets, and have a mandate to conduct parallel financial investigations. The legal framework is in place; however, the decision to pursue parallel financial investigations is still discretionary. This legal framework is yet to be tested in courts to confirm its effectiveness.

(g) ***Control of Corruption and Bribery***

The control of corruption and bribery variable was rated **Medium Low**, at a score of **0.4**. The country has dedicated units to fight corruption

but, detection mechanisms are doubtful, and a clear whistleblowing legal framework, that protects whistleblowers, does not exist. Further, public perception on corruption is very high and the corresponding statistics on arrests and prosecutions of those suspected of corruption are very low, even though government key officials may be arraigned in courts over corruption, the rate of convictions is very low.

(h) ***Domestic Cooperation***

Domestic cooperation between the country's relevant agencies was rated **High** at a score of **0.7**. The assessment noted that various relevant agencies, frequently undertake joint operations, such as joint border patrols, joint roadblocks and joint patrols in national parks.

(i) ***Non-Profit Organizations (NPOs)***

NPOs are actively involved in the fight against environmental crimes and this variable was rated **Medium**, at a rate of **0.5**. Most of the wildlife protection and conservation activities are funded by the NPOs. NPOs involved in ENV matters, actively cooperate with LEAs, in following up on the investigations and prosecutions of offenders.

(j) ***International Cooperation***

This variable was rated **Medium** at a score of **0.5**. International cooperation is in place with neighboring countries, through Interpol. The country is, also, a signatory to international conventions and is therefore, obliged to cooperate with other member states.

(k) ***Geographical Factors***

Geographical factors were considered to be **Medium** at a score of **0.5**. Even though the country's borders may be considered porous, there are wholesome initiatives to mitigate the consequences of porosity, such as border controls and patrols in place, sporadic roadblocks and security check points, as well as licensing requirements and certification, for those involved in the importation of hazardous substances.

(l) **Public Awareness**

Public awareness was considered to be **Very High** at a score of **0.8**. The Zimbabwe Parks & Wildlife Management Authority undertakes yearly awareness campaigns, to communities lying close to sanctuaries and national parks. Everyone who commits any of the environmental crimes does it clandestinely, which is an indication that they know it is unlawful. The Environmental Management Agency, also frequently makes national broadcasts, both on radio and television, raising awareness of environmental crimes.

(m) **Capacity of the Borders and Customs Forces**

The borders and customs forces are effectively participating in the fight against environmental crimes and this variable was rated **Medium** at a score of **0.5**. All border authorities are acquainted with environmental crimes, and make use of scanners and x-rays to detect crime. Their focus, however, has mainly been on predicate offences, and therefore, dissemination of financial intelligence has to be improved.

(n) **Incentives and Protection for Reporting**

This variable was rated **Medium** at a score of **0.5**. In some of the country's agencies, such as ZPS CID, there is a provision for informer's float, but funds are not available due to budgetary constraints. Informer's identity is kept secret; however, this is enforced as an administrative policy and not stipulated in law. Reporting depends on goodwill of the country's citizens.

(o) **Effective Use of Intelligence**

The effective use of intelligence was rated **Very High** at a score of **0.8**. The country's Parks and Wildlife Management Authority created a dedicated Intelligence and Security Unit, within its structures; however, EMA does not have a dedicated Intelligence Unit. To cover this intelligence gap, the country established the Minerals Flora and Fauna Unit, as part of the operational policy to use intelligence. The SARPCO

and Interpol communication systems, address the use of sharing intelligence internationally.

(p) ***Capacity of Preventative Authorities***

The capacity of preventative authorities was rated **Medium High** at **0.6**. Joint operations, such as border controls, roadblocks and forest patrols, are testimony of the capacity of preventative authorities. The country also made huge investment in training, through the establishment of dedicated environmental training colleges, such as the Forestry College in Manicaland and Mushandike College of Wildlife in Masvingo. To augment government efforts in fighting environmental crimes, Campfire has projects to engage the communities in the fight against environmental crime.

(q) ***Suspicious Transaction Reports (STR) Reporting***

This variable was rated **Medium Low** at a score of **0.4**, mainly because STRs received from reporting entities, do not disclose whether the STR is related to environmental crime or not. This will only be known after investigation.

(r) ***Capacity of FIU***

The FIU applies the Risk Based Approach (RBA) in its analysis of reported cases, and its focus on the environmental sector, is on extraction/mining crimes, unlike other environmental crimes. Capacity of the FIU was rated **Very High** at a score of **0.8**.

(s) ***Capacity of Criminal Law Enforcement***

The capacity of criminal law enforcement was considered to be **Very High** at a score of **0.8**. The country records daily arrests of environmental criminals and most of the reported cases result in successful prosecutions. Zimbabwe, also established dedicated Asset Forfeiture Units, in relevant law enforcement agencies, and the national prosecution authority.

(t) ***Legal Protection for Law Enforcement***

This variable was rated **High** at a score of **0.7**. The rating was, however, problematic in that various players, that is law enforcement, prosecutors, and customs were lumped into one variable. Some agencies may have written policy on protection, and some may not have. Officers' exposure to external undue influence may be different, depending on the officer's position in the value chain of environmental crime management. There is, however, need for a provision at law to protect officers who report on colleagues.

(u) ***Use of Experts***

Access to experts is readily available and this variable was considered to be **High** at a score of **0.7**. Law enforcement agencies have access to a forensic laboratory and its relevant experts, the government analyst and to the assayer at government's Mineral Marketing Corporation Zimbabwe, for all suspected crimes involving minerals.

(v) ***Legal Protection for Prosecutors / Judges***

This variable was rated **Medium High** at a score of **0.6**. The country's law enforcement agencies are covered by the Criminal Procedure & Evidence Act (CP&E Act), which provides for the powers of peace officers and how they must conduct their duties. Each LEA is bound by its own Act, however, withstanding external pressure or influence, depends on an individual, but statutes do regulate conduct of various agencies.

(w) ***Capacity of the Prosecutors and the Judiciary***

The capacity of prosecutors and the judiciary was considered to be **Medium High** at a score of **0.6**. Even though this variable was rated at 0.6, the working group had reservations because rating prosecutors and judiciary jointly was viewed as not feasible. In Zimbabwe, prosecutors now have specialized units to deal with money laundering cases, whereas the judiciary has not yet established specialized courts to deal

with ML cases. Therefore, prosecutors may have a higher rating but the same cannot be said with the judiciary.

RECOMMENDATIONS AND CONCLUSIONS

Priority Listing

The analysis identified AML/CFT areas that have deficiencies and that require priority attention. Of the 23 vulnerability variables assessed, 13 variables were considered as priority areas. Table 4.1 shows the prioritization list according to their level of priority.

Table 17.5: Prioritization List

1. Input Variable	2. Priority Ranking
3. Control of Corruption	4. 1
5. Capacity of Prosecutors & Judiciary	6. 2
7. International Cooperation	8. 3
9. Capacity of the customs and border authorities	10. 4
11. Capacity of the Designated Authority	12. 5
13. Capacity of Preventive Authorities	14. 6
15. Criminal Sanctions	16. 7
17. NPOs	18. 8
19. ENV Crime Asset Recovery and Management	20. 9
21. Incentives and Protection for Reporting	22. 10

23. Admin or Civil Sanctions	24. 11
25. Data Collection, Risk Analysis and Assessment	26. 12
27. Geographic Factors	28. 13

Suggested Areas of Improvement

A number of areas were identified as needing improvement in the environmental crime sector. The following recommendations can therefore be made: There is urgent need to control corruption that is prevalent in the wildlife (ENV) sector, improve the capacity of prosecutors & judiciary, customs & border authorities, as well as international cooperation.

- The Forestry Act has to be amended for “PE and D” penalties, to make the penalties proportionate, effective and dissuasive.
- Other areas that require interventions in the medium to long term are:
 - ENV crime asset recovery and management,
 - Incentives and protection for reporting ENV crimes,
 - Administrative and civil sanctions,
 - A centralized system for ENV crimes data collection, risk analysis and assessment, and
 - The country has to address the porousness of her borders.

CHAPTER 18

LEGAL PERSONS RISK ASSESSMENT

KEY FINDINGS OF THE SECTOR

This is the country's first assessment of money laundering and terrorist financing risk of legal persons and arrangements. No prior assessment of this kind has ever been conducted in the country. In this regard, no comparison can be made, since this is the country's first assessment.

The World Bank AML/CFT Risk Assessment tool defines risk as a function of threats and vulnerabilities. The risk assessment exercise reviewed threats and vulnerabilities in relation to the following types of legal persons and arrangements; Private Companies, Public Companies, Cooperative Companies, foreign companies, companies limited by guarantee, private business corporations, trusts, partnerships, Non Profit Organizations and Statutory Bodies.

The assessment found that the following legal persons and arrangements, in order of ranking, had the highest risk for money laundering; Private Limited Companies, [Pvt Ltd Co], Private Business Corporation- [PBC], and Trusts. However, no evidence of TF risk was found.

The findings of this assessment pertain specifically to the ranking of legal persons and arrangements and their susceptibility to abuse by money launderers and terrorist financiers. In this regard, the results should in no way be interpreted as the overall ML/TF risk profile for the country. All things equal natural persons pose greater ML/TF risk in the country than all legal persons and arrangements combined. This focused assessment shows that the biggest risk of money laundering and terrorist financing does not originate from LPAs as only ninety-two (92) cases were perpetrated by LPAs during the four-year period under

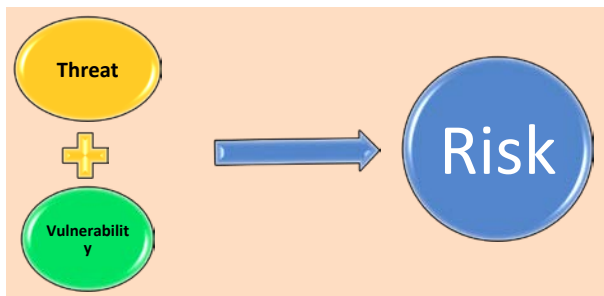
review as compared to a significant large number that involved natural persons.

BACKGROUND AND OVERVIEW

The risk assessment for legal persons and arrangements in Zimbabwe was carried out reviewing data and statistics covering the period from the 1st of January 2016 to the 31st of September 2019. Though the assessment of legal persons is part of the overall comprehensive assessment of ML/TF risk in Zimbabwe, the actual processes and procedures were conducted separately from the main assessment, since the World Bank ML/TF Risk Assessment Tool in its current format does not incorporate the assessment of legal persons and arrangements.

In this regard, the Authorities developed a homemade tool which leaned heavily on the World Bank tool, and also borrowed concepts of legal persons' assessment from the few assessments that have done by other countries. In essence it focused on two main aspects of analysis, threat analysis and vulnerability analysis. (See figure 18.1, below)

Figure 18.1: Assessment Concept for Legal Persons and Arrangements



With regard to threats, the assessment team reviewed statistics on offences by legal persons and arrangements, which were collected from various Law Enforcement Agencies (LEA). Admittedly though, there was a challenge in obtaining the statistics as the team had to extract cases involving legal persons and arrangements (LPA) from the various LEA crime statistics databases given that current set-ups had not been configured to capture data in the format as required by the assessment.

As for vulnerability, variables such as simplicity of formation, extent of knowledge and understanding of setting up the arrangement is known in the public domain, number of legal persons that were in existence for that particular structure were considered. However, the findings for all variables were moderated by expert and intelligence opinion. To this extent as part of the assessment a team of experts on legal persons, crime investigation and prosecution, and FIU, amongst others, were set up to facilitate assessment.

In Zimbabwe legal persons and arrangements are categorized into 10 different types. All these persons and arrangements are described in fuller detail in table 18.1, below.

Table 18.1: Legal Persons and Arrangements in Zimbabwe and their Characteristics.

	NATURE/FORM OF LEGAL ENTITY ARRANGEMENT	EMPOWER-ING ACT	DISTINGUISHING LEGAL CHARACTERISTICS. (Membership, Number, MOA/ AOA specifications etc.).
1	Private Companies	Companies Act Chapter 24:03	<ul style="list-style-type: none"> • Membership is 2-50 • At least 2 directors • Documents required to register <ul style="list-style-type: none"> ➤ Memorandum and Articles of Association ➤ CR14- list of directors & secretaries ➤ CR6- situational and postal address of company • Registration processes required are 2 <ul style="list-style-type: none"> ➤ Name search ➤ Registration (certificate of incorporation issued) • Registration cost is at least ZWL\$140.00 • Average time taken to register is 3 working days
2	Public Companies	Companies Act Chapter 24:03	<ul style="list-style-type: none"> • Membership is at least 2 members • At least 2 directors • Documents that are required to register are <ul style="list-style-type: none"> ➤ Memorandum and Articles of Association ➤ CR14- list of directors & secretaries ➤ CR6- situational and postal address of the company ➤ CR12- Consent to act as director ➤ CR13 List of name of those who have consented to be directors ➤ CR7 if there is a director share qualification ➤ Statement in lieu of prospectus • Registration cost is at least ZWL\$380.00 • Average time taken to register is 1 week. • An additional 1 month is required within which to hold a statutory meeting before registrar issues a certificate to commence business. • Registration processes required are 3

3	Companies Limited by guarantee	Companies Act Chapter 24:03	<ul style="list-style-type: none"> • Membership is 2- • At least 2 directors • Documents required to register <ul style="list-style-type: none"> ➤ Memorandum and Articles of Association ➤ CR14- list of directors & secretaries ➤ CR6- situational and postal address of company ➤ An application to the Minister ➤ A list of persons making the application ➤ Objects should be aimed at benefiting the public/ society • Registration processes required are 6 <ul style="list-style-type: none"> ➤ Name search ➤ Examination by Companies Office ➤ Examination and recommendation by Policy department to the Minister ➤ Advertising ➤ Issuance of licence by minister ➤ Registration (certificate of incorporation issued) • Average time taken to register is 6 weeks.
4	Co-operative Companies	Companies Act Chapter 24:03	<ul style="list-style-type: none"> • Membership is 2- • At least 2 directors • Documents required to register <ul style="list-style-type: none"> ➤ Memorandum and Articles of Association ➤ CR14- list of directors & secretaries ➤ CR6- situational and postal address of company • Registration processes required are 2 <ul style="list-style-type: none"> ➤ Name search ➤ Registration (certificate of incorporation issued) • Registration cost is at least ZWL\$240 • Object to be of marketing farming produce of its members • Average time taken to register is 3 working days

5	Foreign Companies	Companies Act Chapter 24:03	<ul style="list-style-type: none"> • Membership is dependent on foreign jurisdiction. • Documents that are required to register are <ul style="list-style-type: none"> ➤ Memorandum and Articles of Association/ Charter. ➤ CR14- A list of principal officers and directors who are resident in Zimbabwe if any. ➤ CR6- situational and postal address of company. ➤ Cr 18- list of documents submitted. ➤ Application to the Minister. • Registration processes required are 4 <ul style="list-style-type: none"> ➤ Lodgement & examination by the Companies Office ➤ transmission to and examination by the Policy department and recommendation to the Minister ➤ Issuance of a licence by the minister ➤ Registration (certificate of incorporation issued) • Registration cost is US\$520.00 • Average time taken to register is 4 weeks.
6	Private Business Corporations	Private Business Corporations Act Chapter 24:11	<ul style="list-style-type: none"> • Membership is 1-20 • Documents required to register <ul style="list-style-type: none"> ➤ PBC 2 Registration form • Registration processes required are 2 <ul style="list-style-type: none"> ➤ Name search ➤ Registration • Registration cost is ZWL\$20 • Average time taken to register is 1 day.
7	Trusts		<ul style="list-style-type: none"> • Membership is at least 2 • Documents required <ul style="list-style-type: none"> ➤ Trust Deed • Registration cost is ZWL\$50.00 together with additional legal fees for Notary public. • Average time taken to register is 3 days.

8	Partnerships (Professional bodies)		<ul style="list-style-type: none"> • Membership is at least 2 • Documents required <ul style="list-style-type: none"> ➤ About 10 documents are required • Registration processes required are 4 <ul style="list-style-type: none"> ➤ Application ➤ Submission of requested documentation ➤ Interview ➤ Opening of trust accounts ➤ Firm inspection • Registration cost is ... • Average time taken to register is 10 weeks.
9	Non Profit Organisations	Private Voluntary Organizations Act [Chapter 17:05]	<ol style="list-style-type: none"> 1. Local PVO <ul style="list-style-type: none"> • Membership is 2-20 • Registration processes required are 4 <ul style="list-style-type: none"> • Documents required to register <ul style="list-style-type: none"> ➤ Application letter in the district they are head quartered. ➤ Proof of advert ➤ PVO1 ➤ PVO2 ➤ Copy of organisation's constitution ➤ Police clearances of members of the executive ➤ Proof of notice to local authority of intention to register ➤ Curriculum vitae of members of the executive • Registration cost is at least ZWL\$140 2. International PVOs <ul style="list-style-type: none"> • Signed MOU with government ministries in their area of expertise. • Curriculum vitae and clearance from Interpol of country representative. • Indication of geographical coverage • Average time taken to register is 3 months – a year

10	Statutory bodies,	Act of Parliament establishing the specific statutory body	<ul style="list-style-type: none"> • Membership is 2- • At least 2 directors or as provided for by the Act • Documents required to register <ul style="list-style-type: none"> ➤ The Act • Average time taken to register is 6 months – a year
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It needs to be stated as a qualifier that given that this was an inaugural assessment, challenges were encountered all around and this included the extraction of crime statistics on legal persons and arrangements as well limited participation by all relevant stakeholders. However, despite these limitations the Authorities are confident that the assessment gives a true and fair view of risks posed by the various legal persons and arrangements.

THREAT ASSESSMENT

Analysis of cases received 2016 to September 2019

During the period under review, a total number of 92 cases involving legal persons and arrangements were dealt with by LEAs (i.e. 14 for 2016, 14 for 2017, 16 for 2018 and 48 for 2019).

From the 92 cases, 88 were attributed to private companies and 4 to trusts. These figures translate to 95%, and 5% respectively. Of the 92 cases 61 of the cases are still under investigations, 10 are under prosecution, 13 cases resulted in convictions for money laundering or predicate offences and 8 cases resulted in acquittals. (See table 18.2, below)

Table 18.2: Crime Statistics involving legal Persons

		THREAT ANALYSIS ACTUAL/ REPORTED STATISTICS						
NO	TYPE OF LEGAL PERSON/ ARRANGEMENT	NUMBER OF CRIMINAL CASES INVOLVING THE STRUCTURE				TOTAL NUMBER OF CASES	PERCE- NTAGE OF TOTAL(%)	RANKING FROM THREAT ANALYSIS. (Low, Medium or High)
		2016	2017	2018	2019			
1	Private Limited Companies	13	14	16	45	88	95	High
2	Trusts	1	-	-	3	4	5	Low
3	Non-Profit Organizations	-	-	-	-			Low
4	Statutory bodies	-	-	-	-			Low
5	Public Companies	-	-	-	-			Low
6	Partnerships	-	-	-	-			Low
7	Co-operative Companies	-	-	-	-			Low
8	Foreign Companies	-	-	-	-			Low
9	Companies Limited by Guarantee	-	-	-				Low
10	Private Business Corporation							Low
	TOTAL	14	14	16	48	92 cases		

Key			
Percentage	0-20	21-50	51-100
Rating	Low	Medium	High

There is an indication that legal persons and arrangements are increasingly being used for illicit activities susceptible to money laundering whilst there were no cases of TF involving legal persons and arrangements.

Prevalent offences in the legal Persons and Arrangements

During the period under review 52 cases were related to fraud. Out of the 52 cases, 49 were committed by private companies, and 3 were committed by Trusts. Five (5) cases of theft of trust property were recorded, of which four (4) were committed by private companies and one by a Trust. Eleven (11) cases were related to Tax Evasion, where all the cases were committed by private companies. The following cases were all committed by private organizations; 9 cases of Money laundering, 8 cases of violating the Bank Use Promotion Act, 5 were for illegal forex dealing, 1 was for externalization and 1 for smuggling. (See Table 18.3, below)

Table 18.3: Predicate Offence involving legal persons and arrangements

PREDICATE OFFENCE AND TYPE OF LEGAL PERSON AND ARRANGEMENT CRIME STATISTICS FOR JANUARY 2016 TO SEPTEMBER 2019									
INTELLIGENCE AND EXPERT ESTIMATES									
	PREDICATE OFFENCE	2016	2017	2018	2019	TOTAL	PERCENTAGE (%)	THREAT RANKING BY PREDICATE OFFENCE. (Low, Medium or High)	OVERALL THREAT RANKING FOR ARRANGEMENT
Private Limited Companies Tax Evasion Money Laundering Contravening the BUP Act Theft of Trust Property Illegal Forex dealing Externalization Contravening the Customs & Excise Act (Smuggling)	Fraud	12	8	8	21	49	53%	High	High(95% of cases)
	2		1	8	11	12%	Low		
		1	2	6	9	10%	Low		
		3		4	7	8%	Low		
			2	2	4	4%	Low		
			2	3	5	5%	Low		
	1				1	1%	Low		
Trusts Theft of Trust Property			1		1	1%	Low		Low(5% of cases)
	Fraud	1			3	4	4%	Low	
				1	1	1%	Low		
Total		14	14	16	48	92			

The leading predicate offences, for legal persons and arrangements, are fraud, tax evasion, contravention of the BUP Act, theft of trust property, Illegal forex dealing, externalization, and contravening the Customs & Excise Act (Smuggling). Notably most of these predicate offences were committed through the abuse of private companies and trusts.

Analysis of values prejudiced

The total proceeds estimated to be attributed to criminal cases committed by Legal persons and arrangements for the **period 2016 to September 2019 is valued at \$31 034 309.60**, according to available statistics.

Experts and Intelligence Estimates Notwithstanding the assessment as arrived at, through the use of crime statistics, on the threat of ML to legal persons and arrangements, it was acknowledged that there potentially could be a gap in statistics. There was also a need for a qualitative review, by experts, of the ranking returned by the quantitative analysis. The table below summarizes the experts' input.

Table 18.4: Threat Analysis from Intelligence Estimates

	EXPERTS AND INTELLIGENCE ESTIMATES						
PREDICATE OFFENCE		2016	2017	2018	2019		
		INTELLIGENCE AND EXPERT ESTIMATES	INTELLIGENCE AND EXPERT ESTIMATES	INTELLIGENCE AND EXPERT ESTIMATES	INTELLIGENCE AND EXPERT ESTIMATES	THREAT RANKING BY PREDICATE OFFENCE. (Low, Medium or High)	OVERALL THREAT RANKING FOR ARRANGEMENT
Private Limited Companies	Fraud	L	L	L	L	Low	Medium High
	Tax Evasion	H	H	H	H	H	
	Money Laundering	M	M	M	M	Medium	
	Contravention of the BUP Act	L	L	L	L	Low	
	Theft of Trust Property	L	L	L	L	Low	
	Illegal Forex dealing	H	H	H	H	High	
	Externalization	H	H	H	H	High	
	Contravening the Customs & Excise Act (Smuggling)	H	H	H	H	High	
Trusts	Fraud	L	L	L	L	Low	Low
	Theft of trust property	L	L	L	L	Low	

Overall Threat analysis for Legal Person and Arrangements The final finding with regards to exposure to ML threat for legal persons and arrangements was a combination of the actual rankings as derived from the crime statistics as moderated by the input from the experts.

In terms of threat, Private companies were identified to be high risk, and all others ranked as low. The full listing is shown in the table below.

Table 18.5: Summary Threat Findings

THREAT ANALYSIS SUMMARY THREAT FINDINGS				
A	B	C	D	E
NO		RANKING FROM THREAT ANALYSIS	RANKING FROM EXPERT AND INTELLIGENCE ANALYSIS.	OVERALL THREAT RANKING FOR LEGAL PERSON.
1	Private Limited Companies	High	High	High
2	Trusts	Low	High	Medium High
3	Private Voluntary Organizations	Low	High	Medium High
4	Statutory bodies	Low	Low	Low
5	Public Companies	Low	Low	Low
6	Partnerships	Low	Medium	Medium Low
7	Private Business Corporation	Low	Low	Low
8	Co-operative Companies	Low	Low	Low

9	Foreign Companies	Low	Low	Low
10	Companies Limited by Guarantee	Low	Low	Low

VULNERABILITY ASSESSMENT

Methodology

A team comprising experts which included the Registrars of Deeds and Companies, Financial Intelligence Unit, the Law Society of Zimbabwe, Public Accountants and Auditors Board, Zimbabwe Revenue Authority were involved in the assessment of the ML/TF vulnerability aspect of Legal persons and arrangements.

The vulnerability analysis was done using 5 variables which were; simplicity of formation formalities, the extent of knowledge and understanding of setting up the legal person or arrangement in the public domain, the extent that natural persons can be removed from day to day operations, and the transparency of beneficial ownership information.

A scale of 0.1 to 0.9 was used to rate the vulnerabilities variables. An evaluation was conducted by feeding the data on to the home made tool. The vulnerability ratings for each of the types of legal persons and arrangements were computed using the ratings and the weights.

Findings

The table below summarizes the vulnerability findings of the assessment.

Table 18.6: Vulnerability Assessment

	Type of legal person or arrangement	Extent knowledge and understanding of setting up the arrangement is known in the public domain	Number of structures arrangements in existence in the country as at date of assessment	Extent natural BO can be removed from day to day operations	Transparency of Beneficial Ownership Information	Overall Rating. (Average Rating)	Inherent vulnerability
1	Private Companies.	Very well-known	548,652	Moderately Simple	Moderate	0.72	High
		0.9	0.9	0.6	0.5		
2	Public Companies.	Limited <i>Knowledge need for professional assistance</i>	8,671	Simple	Moderately Complex	0.32	Medium Low
		0.2	0.1	0.7	0.4		
3	Co-operative Companies.	known	530	Simple	Moderate	0.34	Medium Low
		0.6	0.1	0.2	0.2		
4	Foreign Companies.	Moderately known.	428	Effected in foreign jurisdiction	Most complex	0.22	Low
		0.2	0.1	0.5	0.1		

5	Companies Limited by Guarantee.	Limited knowledge	1,545	Moderately Complex	Moderate	0.28	Low
		0.3	0.1	0.4	0.5		
6	Private Business Corporations.	Moderately known	23491	Very simple	Very Easy		Medium
		0.6	0.1	0.5	0.4	0.50	
7	Trusts.	Known	18,500	Moderate	Easy	0.44	Medium
		0.7	0.1	0.5	0.1		
8	Partnerships.	Well known	662	Moderately Complex	Easy		Low
		0.2	0.1	0.7	0.1	0.28	
9	Private Voluntary Organizations	Very limited Knowledge	984	Simple	Moderately easy	0.1	Low
		0.1	0.1	0.1	0.1		
10	Statutory bodies.	Very limited Knowledge	27	Simple	Open	0.1	Low
		0.1	0.1	0.1	0.1		

Simplicity of formation formalities

On analyzing the formation formalities of the various Legal entities and arrangements statutory bodies were found to be most complex due to the fact that they have to go through parliamentary process of enacting an Act of parliament that is assented by the President before being gazetted. Private Voluntary organizations and companies limited by guarantee were also found to be complex to form due to the number of requirements, numbers of procedures and time taken to complete registration while Public companies and foreign companies were found to be moderately complex. Private companies, Trusts, co-operative companies are moderately simple to register while private business corporations are very simple.

The simpler the formation formalities the more vulnerable the legal person and arrangement is to money laundering and thus based on this variable private companies, co-operative companies, trusts and private business corporations were deemed to be more vulnerable.

Extent of Knowledge and understanding of setting up the Arrangement

The knowledge and understanding of setting up the Statutory bodies and Private Voluntary Organizations is deemed to be low, for Public Companies and Companies limited by Guarantee is deemed as medium, whilst for Trusts, and Private companies are well known and understood.

The availability of knowledge and understanding in setting up a legal person and arrangement renders the particular legal person or arrangement vulnerable to abuse by money launderers or terrorist financiers. Basing on this premise private companies and Trusts are deemed to be more vulnerable.

Number of each Legal Person/Arrangement in Existence in the Country as at date of Assessment

In terms of statistics Private companies form over 90% of Legal persons and arrangements registered in Zimbabwe while Trusts and Private Business Corporations comprise of 0.04% each of about 600 000 registered entities. Most of the private companies are small family owned businesses.

The more the number of a particular structure are registered the more vulnerable the legal person or arrangement is to ML/TF and thus, based on this variable private companies are deemed to be more vulnerable while Trusts and Private Business Corporations are less vulnerable.

Extent Natural Persons can be removed from day to day operations of the Entity.

It is simple to remove a natural person from the day to day operations of a Private Company, Private Business Corporation, Public Companies, Trusts, Co-operative companies and Partnerships unlike for Private Voluntary Organizations, and statutory Bodies.

The easier it is to distance a natural person from the day to day operations of an entity the more vulnerable the legal person or arrangement is to money laundering and thus based on this variable private companies, Co-operative companies, and Public Company are seen to be more vulnerable.

Transparency of Beneficial Ownership Information It is very simple to get beneficial ownership details of a statutory body for it is known that it is the government. Private Business Corporations normally have a single member who is normally the beneficial owner while beneficial owners of a Co-operative Company, because of the restrictions in the nature of business they can conduct, can also be easily established. Private and Public companies are moderately simple to establish their beneficial

Ownership information due to the time and processes to retrieve the information due to lack of a central database though it is available. Foreign Companies are the most difficult to get information on their Beneficial ownership information due to the fact that it is resident in a foreign jurisdiction.

The more difficult it is to access beneficial ownership information of an entity the more vulnerable the legal person or arrangement is to money laundering and thus based on these variable foreign companies are deemed to be more vulnerable.

Overall Vulnerability Rating The overall vulnerability rating for legal persons was deduced from the overall vulnerability assessment moderated by controls in place for each of the arrangements as summarized in the table below.

Table 18.7: Residual Vulnerability for legal persons and arrangements

	Inherent vulnerability (see diagram 6)	Control Supervisory measures	Residual vulnerability level.	Priority ranking
Private Companies.	High	Very weak	High	1
Public Companies.	Medium	Low	Moderate Low	5
Co-operative Companies.	Medium Low	Very Weak	Medium Low	4
Foreign Companies.	Low	Very Weak	Low	8
Companies Limited by Guarantee.	Low	Very Weak	Low	6
Private Business Corporations.	Medium	Very weak	Medium	2
Trusts.	Medium	Very Weak	Medium	3

Partnerships.	Low	Moderate	Low	7
Private Voluntary Organizations.	Low	Moderate	Low	9
Statutory bodies.	Low	Strong	Very Low	10

ML RISK FOR LEGAL PERSONS AND ARRANGEMENTS

As stated earlier in the report, the risk for each of the legal persons and arrangements was assessed as a function of both the overall threat assessment as well as the vulnerability assessment as guided by a standard risk map whose operation is shown below. The intersection of threat and vulnerability defines the overall rating of risk.

Figure 18.2: Heat Map guide for determining overall risk for each of the legal person and arrangement

Threat	High						
	Medium						
	Low						
		Low	Medium	High			
		Vulnerability					

With regards to the legal persons operating in Zimbabwe, using the

heat map shown above as a guideline, this assessment drew up the following overall risk ratings for the ten arrangements that were in existence in Zimbabwe at the time of the assessment.

Table 18.8: Risk level and ranking for each of the legal person and arrangement

		Threat Assessment	Vulnerability Assessment.	Risk Assessment	Priority ranking
1	Private Limited Companies.	High	High	High	1
2	Public Companies.	Low	Medium Low	Low	
3	Co-operative Companies.	Low	Medium Low	Low	
4	Foreign Companies.	Low	Low	Low	
5	Companies Limited by Guarantee.	Low	Low	Low	
6	Private Business Corporations.	Low	Medium	Medium Low	2
7	Trusts.	Low	Medium	Medium Low	2
8	Partnerships.	Low	Low	Low	
9	Private Voluntary Organizations.	Low	Low	Low	
10	Statutory bodies.	Low	Low	Low	

CONCLUSIONS

After assessing the risk of ML/TF in the 10 legal persons and arrangements in Zimbabwe it was found that the highest risk is in private companies, trusts and private business corporations in that order.

RECOMMENDATIONS

The Companies Office should create and maintain an electronic Registry that includes a beneficial ownership Registry to allow easy access of company records and details of beneficial ownership.

Verification of beneficial ownership information on Trusts and Companies should be conducted by the Deeds and Companies Offices to ensure accurate and up to date information.

Removal of defunct companies from the Companies Office register should be fortified to ensure only active companies are on the register thereby removing the burden of maintenance of non-functional and shelf companies.

Awareness campaigns and programmes should be carried out through workshops, exhibitions and training to educate stakeholders of AML/CFT issues, re-registration of all companies and the statutory requirement to keep up to date beneficial ownership information with the Companies Office and within their own organizations.

ANNEXURES TO THE ASSESSMENT.

Annexure 1: Basis for the intelligence and expert estimates to be attached.

	Predicate offence	Rating	Basis for the intelligence and expert estimates
1	Fraud	High	<ul style="list-style-type: none"> - The predicate offence of fraud accounts for the highest number of cases in the legal persons and arrangements sector - In the NRA of 2015 and the current NRA Fraud remains one of the predicate offences in the top five. In the current NRA it is the predicates offence posing the highest threat in generating proceeds of crime. - Legal Persons and Arrange deal with high values and this makes them vulnerable to abuse by criminals. - An analysis of the crimes statics of legal persons and arrangements for the period 2016 to 2019 September shows that Fraud is prevalent crime in all the years.
2	Tax Evasion	Medium	<ul style="list-style-type: none"> - Crime statistics and cases under this predicate offence were low but tax evasion remains one of the predicate offences generating a lot of proceeds as reported in the NRA report of 2015 1st the current NRA. - A majority of tax evasion cases are dealt with administratively by the Revenue Authority and that reduces the number of cases treated as criminal cases.
3	Money Laundering	Medium	<ul style="list-style-type: none"> - There are few cases being investigated for ML as predicate offences are still being preferred.

4	Contravention of the BUP Act	Low	<ul style="list-style-type: none"> - This crime involves disregarding some obligations. It is committed by failing to carry out some directives or obligations meant to safeguard some operations against abuse which in turn came be abused to commit crime or provide an unfair advantage over others. Threat level to ML/TF is low.
5	Theft	Low	<ul style="list-style-type: none"> - There is no meaningful proceeds generated from theft hence low risk.
6	Illegal Forex dealing	Low	<ul style="list-style-type: none"> - Most legal persons have been getting forex allocation from banks hence the low risk in being involved in illegal forex dealing.
7	Externalization	Low	<ul style="list-style-type: none"> - The risk of externalisation has become low due to shortage of forex in the country and the shift to a local currency and stringent conditions for moving forex out of the country.
8	Contravening the Customs & Excise Act (Smuggling)	Low	<ul style="list-style-type: none"> - This is a high proceeds generating predicate offence according to the results of the NRA however it poses a low risk for ML in Legal Persons and Arrangement sector. Instead of smuggling legal persons and arrangements are prone to evade tax or bribe their way when dealing with customs issues.

THE STRATEGIC PLAN

THE REPUBLIC OF ZIMBABWE



NATIONAL ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM STRATEGIC PLAN

2020 - 2025



Contributing to Zimbabwe's economic growth by achieving high level of effectiveness in combating AML/CFT.

VISION STATEMENT

To build, sustain and co-ordinate an effective, responsive and adaptive AML/CFT framework consistent with international standards.

MISSION STATEMENT

The establishment of the comprehensive AML/CFT framework shall be through the engagement of human and technical resources amongst relative local and international stakeholders



FOREWORD

(Chairperson National Task Force on AML/CFT Zimbabwe).

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ACRONMYS

AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Combatting the Financing of Terrorism
BO	Beneficial Owner/Ownership
CBM	Central Bank of Malta
CDD	Customer Due Diligence
DAIP	Detailed Action Implementation Plan.
DNFBP	Designated Non-Financial Businesses and Professions
ESAAMLG	Eastern and Southern Anti Money Laundering Group.
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
ICRG	International Cooperation Review Group- now known as the Joint Group.
IPEC	Insurance and Pensions Commission
LEAs	Law Enforcement Agencies.
ML	Money Laundering
ML/FT	Money Laundering/Financing of Terrorism
MLPCA	Money Laundering and Proceeds of Crime Act (Chp 9;24).
MLA	Mutual Legal Assistance
MLRO	Money Laundering Reporting Officer
MOU	Memorandum of Understanding
NTF	National Task Force on Combating Money Laundering and Funding of Terrorism
NRA	National Risk Assessment
SECZ	Securities Exchange Commission of Zimbabwe
TA and T	Technical Assistance and Training
TF	Terrorism financing
UNODC	United Nations Office on Drugs and Crime

NATIONAL ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM STRATEGIC PLAN 2020-2025

INTRODUCTION

This is Zimbabwe's third national Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Strategic Plan, following after the first AML/CFT three-year Strategic Plan for period 2010-2012 and the second that covered the period 2015-2020. This plan covers the period 2020-2025. As per previous endeavours, the plans, sets out the strategic direction that the Republic of Zimbabwe intends to adopt in order to attain its vision for the prevention and combating financial crimes, a vision which is also in line with the regional pursuits within the Eastern and Southern Africa Anti- Money Laundering Group (ESAAMLG) and international best practice regarding the implementation of the Financial Action Task Force (FATF) AML/CFT standards.

The AML/CFT framework in Zimbabwe is established through the Money Laundering and Proceeds of Crime Act -Chapter 9:24; (MLPCA), which is an act to suppress the abuse of the financial system and enable the unlawful proceeds of all serious crime and terrorist acts to be identified, traced, frozen, seized and eventually confiscated. Given its widespread ambit, the Act identifies and imposes obligations on a number of institutions and stakeholders who are all vital to the prevention and combating ML and TF in the country. The figure below is a diagrammatic representation of these stakeholders and their linkages.



Diagram 1. The AML/CFT Value Chain.

Each part of the chain is essential to the overall confiscating of proceeds of crime for each part operates in a series of interdependencies with the next part for the overall wholeness of the system. In this regard, successful AML/CFT initiatives are important and attainable through following three measures namely; close working relationships, collaboration and coordination. Success is also drawn from the role that AML/CFL stakeholders play in the current strategic plan. The 2020-2025 Strategic Plan has been built on various foundational themes. Firstly, the successes achieved and lessons learnt from the challenges encountered in the implementation of the first two plans. The second foundational theme has been the country's AML/CFT experiences and exposures in the past decade, notably; the country entry into the Joint Group (formerly referred to as the International Cooperation Review group ICRG) in 2012 and its exit in early 2015, the country first national risk assessment exercise in 2014-5, and its assessment under the ESAAMLG second round mutual evaluation exercise. All these experiences have provided important learning blocks of which this current 2020-2025 Strategic plan is premised upon. Thirdly and importantly, the country has just completed its second national Risk Assessment exercise which is informing the country of its current AML/CFT threats and vulnerabilities. These foundational themes are the important derivatives for directional guidance in adopting the strategy that the country need to follow in the coming years.



Diagram 2 Feeders into the 2025 Strategic Plan.

The Strategic Plan also recognizes the current budgetary constraints upon the national fiscus as well as challenges that are besetting the economy and therefore taking cognisance of the fact that the AML/CFT measures will have to be implemented in an environment where other priorities compete for the attention and resources of authorities, the harnessing, mobilization and efficient utilization of such resources is critical. In this regard, the 2020-2025 Strategic Plan will seek to seek to complement National Treasury efforts with those of non-state actors and critical sectors whose roles are important to the effective implementation of AML/CFT measures.

Review of the Strategic Plan 2015-2020

Tenets of the 2015-2020 Strategy.

Zimbabwe Strategic orientation as per 2015-2020 strategic plan has been encapsulated in the following five strategic objectives. These were;

- Identify and assess the country's Money Laundering and Financing of Terrorism threats and risks, on an on-going basis, and implement risk-based measures to mitigate the risks. Increase effectiveness of Zimbabwe's AML/CFT systems to detect, investigate and prosecute cases of ML/TF. Increase effectiveness of Zimbabwe's AML/CFT systems to detect, investigate and prosecute cases of ML/TF.
- Increase the country's effectiveness in identifying, tracing and confiscating proceeds and instrumentalities of crime and funds related to financing of terrorism, and
- Enhance national Cooperation as well as International Co-operation on AML/CFT Issues.

Achievements

The country is able to list the following activities amongst other major achievements that arose from the implementation of the above discussed strategic objectives;

- Several legal amendments were made to the main ML Act to refine operational procedures and processes. Some of these were the additions to section six (6) and twelve (12) of the MLPCA.
- The Treasury was able to set aside a fund for AML/CFT capacity building, which saw the National Task Force embark on a nationwide program specifically aimed at Law Enforcement Agencies.
- A specific unit within the Zimbabwe Republic Police dedicated to the investigation of ML cases, (i.e. the Asset Forfeiture Unit) was set up.
- The country successfully launched its Second National Risk Assessment program making it one of the first in the ESAAMLG region to do so.
- Domestic and International cooperation process were enhanced through legal amendments and the signing of new Memoranda of Understanding, culminating in record statistics for the country in terms of cooperation on AML/CFT.
- Various stakeholder processes which include those of the FIU and SECZ were automated to facilitate better analysis, monitoring and supervision which have seen improved effectiveness in AML/CFT issues.
- An RBA Supervisor framework was drawn and though still at its early implementation stages at the launch of this plan, this had been cascaded to all Supervisory Authorities.

Challenges

Despite the successes and achievements discussed above, various constraints in the form of financial resource limitation, technical expertise challenges, skilled human resource scarcity as well as the emergence of unforeseen variables are evident. Notably amongst these has been the;

- Limited outreach and public awareness campaigns due to availability of staff as well as commitment to other competing objectives. Failure to secure technical expertise for awareness and outreach for technical stakeholders specifically in this regard the Judiciary.
- Lack of operational resources that could be used to pursue strategic objectives. Precisely the lack of vehicles, computers and other forensic aids to assist Law Enforcement Agencies to pursue their duties, and
- Low stakeholder buys in to the strategic initiative which amongst other issues is the pursuit of confiscation and seizures of the proceeds of crime as witnessed by low statistics to this effect.

THE STRATEGIC PLAN

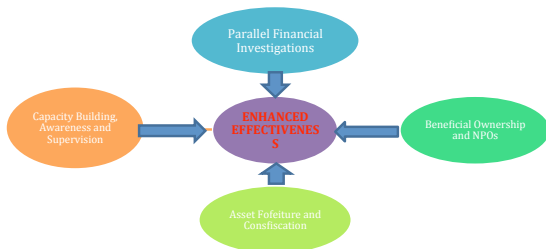
Overview

The country AML/CFT vision and mission is in the long term. In this regard, this strategic plan is a pursuit of the same over the period of the next five years. The strategic plan therefore, seeks advancement towards the vision by pursuit of four broad objectives. Pursuing our long term goals, we will focus on four key objectives for the next five years.

These four strategic objectives will guide both the National Task Force on AML/CFT as well as its Secretariat the Financial Intelligence Unit in their approach to effective regulation and supervision, and in maintaining

confidence in Zimbabwe's economy by combating financial crime.

Diagram 3. The National Strategic Objectives for Zimbabwe 2010-2025



Strategic Priorities

Strategic Priority 1 - AML/CFT Awareness and Capacity Building

This will require that the various agencies of the NTF, specifically those that are of a supervisory nature to ensure improved understanding, by all relevant stakeholders, from designated institutions right up to the public in general on the of the MLPCA expectations and requirements, regulatory and supervisory frameworks, guidance and procedures which are easy to understand. In following this strategic objective, the NTF shall require each of the stakeholders to;

- Develop communication strategies on AML/CFT to their constituencies.
- Review, develop and disseminate relevant AML/CFT materials.
- On-going partnership with other stakeholders on public awareness, and
- Either alone or in partnership with other professional bodies continuously offers training and capacity building programs

for their stakeholders.

- Draw up and administer effective Risk Based Supervisory programs that should ensure compliance by designated institutions. Widen scope of domestic cooperation capacity building and awareness efforts through domestic and international MOUs, for exchange of information and joint awareness, and supervisory operations, and
- Administer dissuasive sanctions for non-compliant designated institutions for repeated breaches of AML/CFT obligations.

Strategic Priority 2- The pursuit of parallel financial investigations

This current strategic initiative builds upon the achievement of the previous plan of 2015-2020 of setting up a separate and specialised Money Laundering Investigation Unit (AFU). However, cognisant of the limited number of successful parallel financial investigations, further work is required on the objective for the country to gain it's the level of effectiveness it wished to achieve. In following this strategic objective, all Law Enforcement Agencies shall be required to;

- Have designed and be implementing a plan to strengthen and increase the size and level of specialisation in money laundering and terrorism financing investigations.
- Have designed a staff development strategy to increase the number of staff and allow for additional training of current staff, thus improving both capacity and ML/TF expertise.
- Make more frequent use of external experts (e.g. forensic accountants) their parallel financial investigations when in the expertise is not available in-house. Enhance their access to the relevant information and its use of analytical and workflow tools, by maximum utilisation of the FIU and other cooperating agencies in combating ML/TF. Review investigation procedures with a view to enhance techniques

for complex ML investigations and the assistance of specialised technical assistance such as Prosecutor led investigations. Widen scope of international cooperation in investigations to capture the global nature of AML/CFT investigations through MOUs, exchange of information and cross border joint operations, and

- Collect and maintain additional and detailed statistics to ensure adequate monitoring of the progress achieved in terms of the outcome of Zimbabwe's efforts with regards to investigating and prosecuting money laundering and terrorism financing.

Strategic Priority Three- Confiscation and Forfeiture of Criminal Proceeds

The National Prosecuting Authority and to some extent LEAs are responsible for asset recovery. The ability to trace, freeze and forfeit the proceeds of crime has been limited so far. The recent establishment of a dedicated Asset Recovery Unit within the NPA is expected to enhance the ability to trace, freeze and forfeit the proceeds of crime. However, the country lags behind in terms of actual confiscations and forfeitures. Further resolve is required for heightened input in this matter. In following this strategic objective, the responsible agencies shall be required to;

- Define their operating models with emphasis to spheres of operations in terms of their national role in confiscation and forfeiture of criminal proceeds.
- Develop and implement plans for increasing their capacity which amongst other measures includes the hiring of staff, selection of the necessary IT tools, capacity building initiatives specifically horned for confiscation and forfeiture of criminal proceeds, and
- Operationalise the Asset Recovered Fund.**Strategic**

Priority Four- Beneficial Ownership Matters

Centralised information about beneficial owners of legal entities has not been available to date and though LEAs are able to follow up on a need basis there has been little effort to make BO information to be publicly available. Further though other entities may have all the required information other registries and databases (e.g. voluntary organisations contain only partial information on BO. In order to prevent the misuse of legal entities and arrangements for ML/TF, in Zimbabwe, the following measures will be implemented under this strategic objective;

- A number of registers will be established or will undergo a major upgrade to provide more transparency about the beneficial ownership of legal entities and arrangements (e.g. Register of Companies, Beneficial Ownership Register of Trusts, Register of Legal Persons, and Voluntary Organisations).The Registry of Companies will extend the existing register to include beneficial ownership information of companies and other commercial partnerships.
- The Registrar of Legal Persons will set up a register of beneficial owners of other legal entities. The relevant subsidiary legislation was published at the end of 2017 and will be followed by implementation starting in early 2018, and
- The Ministry of Labour and Social Welfare will strengthen its supervisory capacity. It will seek additional powers (esp. operational independence and sanctioning powers), and it will increase its internal capacity with additional resources and enhancing the comprehensiveness of its database of voluntary organisations. Finally, it will aim to raise awareness across voluntary organisations on ML/TF vulnerabilities as well as AML/CFT obligations and best practices.

Strategic Plan Attainment Enablers

The implementation and attainment of the goals of this strategic plan will require the following key ingredients for its success. Enablers are capabilities, forces, and resources that contribute to the success of an entity, program, or project. Enablers define the extent a strategic orientation is achieved.

The following four enables will define the extent that this strategy will be achieved; Resource Mobilisation, Continued High Level Support, International Pressure to meet AML/CFT Standards and Sustained Monitoring and Evaluation.

Implementation, Review and monitoring of the National Strategy

Implementation, review and monitoring are very important to the management of strategic initiatives as they entail comparing actual against the expected and the resultant impact. In a changing and dynamic environment of which characterises Zimbabwe, some of the key assumptions in the plan may dramatically change and affect implementation of the set goals.

The National Task Force on AML/CFT will develop and operationalise the detailed implementation plan of this Strategic Plan (SP-DAIP). On the basis that the NRA of 2019 was also a basis for the drawing up of this strategic plan, this SP-DAIP will also mirror activities and actions as identified in the NRA.

The Chairperson of the National Task Force shall be responsible for the coordination, implementation and review of the Strategic Plan. Consequently, through the NTF, the chairperson shall arrange for the mid-term and end of term evaluation of the Strategic Plan, to assess the impact of planned activities on service delivery.

Under the guidance of the Chair, the National AML/CFT Committee shall be responsible for monitoring and reviewing the implementation of the National Strategy. Members of the National AML/CFT Committee

will report to the Committee on the progress made on their respective implementation plan. This where applicable will be through the established sub committees of the National Task Force. In turn, the National Task Force through its Chairperson shall make reports as and when necessary make its report to the Minister of Finance and Economic Development.

Diagram 4 Monitoring and Evaluation of the Strategic Plan



Any constraint that impedes the implementation process will also be brought to the attention of the Minister.

RISKS AND MITIGATION MEASURES

As in all strategic plans, apart from the development of unforeseen circumstances general risks arise that may impede the attainment of the set objectives. The identified general risks to successful implementation of the Plan are reflected in diagram 5 for each identified risk, anticipated mitigation measures have been outlined. Specific risks related to activities to be implemented will be covered under the Action Plan.

Diagram 5-Risks and mitigation measures

Risk	Mitigating Measure
Inadequate resources to support the full implementation of the Strategic Plan will negatively impact on annual work programmes and planned activities.	<ul style="list-style-type: none"> • The NTF and its immediate Stakeholders will identify and pursue funding options beyond the National Treasury on a project and/or programme specific basis. Some of these will include TA and T providers under FATF or ESAAMLG. • Initiatives by the NTF will be strictly based on readiness to absorb the assistance and the likelihood of the manifestation of significant result.
The skills and expertise required to deliver effectively on commitments may not all exist within the taskforce or in Zimbabwe specifically.	<ul style="list-style-type: none"> • Implementation of programs will be structured to be commensurate with the build-up of the required skills and resources. • Specifically, internal training within agencies, inward capacity building programs and the acquisition of skills amongst supervisors will precede engagements with external stakeholders
Inadequate commitment by some stakeholders and members of the public to participate in AML/CFT programs.	<ul style="list-style-type: none"> • The NTF will engage in policy dialogue with member States, awareness building and targeted technical assistance

CONCLUSION

Despite the various positive developments in Zimbabwe in the past decade specifically from June 2013 after the promulgation of the MLPC act, and the numerous commendable interventions by the all relevant stakeholders both within the public sector and those from the private sector with regard to AML/CFT, the needs of the country as captured in this Strategic Plan are still urgent.

The plan recognizes the threats and vulnerabilities inherent within the country and those being imported abroad and the risk that these

continue to pose to the financial stability and integrity of the financial system. Development in member States, and proposes structured, measurable responses. The Strategic Plan 2020-2025 therefore, positions Zimbabwe to enhance its domestic capacity as a nation state to pre-empt and respond effectively to these challenges of ML/TF and its associated financial crimes and thereby locate the country on a positive trajectory of economic growth, peace and stability.