

Solomon Islands Money Laundering and Terrorism Financing National Risk Assessment (ML/TF NRA) September 2017:

A Short Summary

The level of sophistication in the processes of money laundering (ML) and the financing of terrorism (FT) is growing and taking advantage of advanced processes and new technologies in addition to using cash as a basis of their funding processes. Funds are generated from traditional crimes, while money launderers and those persons and entities related to terrorism are now expanding their reach globally and infiltrating new markets, legitimate and illegitimate, in order to obtain funds and to increase their criminal opportunities. No country is immune to the perpetrators of ML/FT and their work to conceal unlawfully derived profits and the inter-mingling of those funds and legitimate funds with other legitimately earned money.

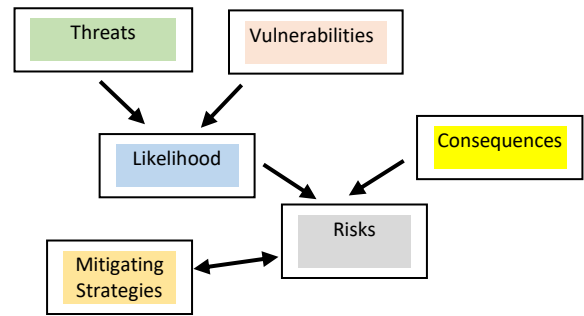
ML/FT diverts funds out of the legitimate economy and undermines the profitability of lawful businesses. ML/FT significantly affects countries, communities and individuals. It removes large amounts of money from the global and national economies that could otherwise be used to fund services, roads, hospitals and schools. This money is instead lining the pockets of criminals and its impact on the community is pervasive.

The Solomon Islands, although positioned in the Pacific Ocean is not immune to these processes of ML/FT. Those involved in ML/FT are constantly looking for new markets for their activities and the Solomon Islands could be another target for their activities.

The Solomon Islands Money Laundering and Financing of Terrorism National Risk Assessment (ML/TF NRA) was conducted between August 2016 and May 2017 on behalf of the Solomon Islands Anti-Money Laundering Commission (AMLC), the Commission responsible for oversight of the Solomon Islands Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) program. The primary Solomon Islands agencies responsible for the preparation of the NRA are members of the AMLC and its AML Technical Experts Group (AMLTEG). The AMLC includes the Solomon Islands Attorney General (AG) as Chairperson, the Governor of the Central Bank of Solomon Islands (CBSI) as Deputy Chairperson, Permanent Secretary Ministry of Finance (MoF), Comptroller of Customs, Assistant Commissioner of Police Crime and Intelligence, Royal Solomon Islands Police Force (RSIPF), and the Director of the Solomon Islands Financial Intelligence Unit (SIFIU) as the Secretary to the AMLC. AMLTEG comprises the Director of Public Prosecutions as Chairperson, Director of the SIFIU as Secretary, and representatives from Immigration, Customs and Excise, Inland Revenue Division, RSIPF, Ministry of Foreign Affairs and CBSI.

ML/TF NRA Methodology

The ML/TF NRA sets out to identify the highest ML/TF risks requiring the most immediate mitigating strategies. The ML/TF NRA does this by identifying the major threats, vulnerabilities and consequences of ML/TF to determine the most significant ML/TF risks.



The NRA has drawn on the best available data and information obtained through interviews, workshops, statistics and other data from government agencies and from the financial institutions, media reports and other public sources as well as the expert opinions/value judgments of the agencies contributing to data collection. This information was used to assess the ML/TF risk in and through the Solomon Islands using the standard risk management approach of identifying and evaluating the threats, systemic weaknesses and the possible consequences to the Solomon Islands should those ML/TF risks eventuate.

The NRA has also referenced the *Guidance on National Money Laundering and Terrorism Financing Risk Assessments* published by the Financial Action Task Force on money laundering (FATF) in February 2013, a range of the completed NRA's of other countries, and the Mutual Evaluation Reports of neighbouring countries with specific regard to the comments on their ML/TF NRAs .

The approach taken in identifying the major ML threats in and through the Solomon Islands, now and in the short term future, are the significant amounts of funds derived from predicate crimes and therefore available for ML/FT. As there is little or no statistical information captured on the level of funds involved in most of the predicate crimes, the views of the various Solomon Islands government and non-government entities based on their expert opinions has been the basis to determine the possible threats and vulnerabilities which may enable or result in ML/FT.

Information sources for the ML/TF NRA

Following are the data sources used to compile the 2017 SI ML/TF NRA:

- SIFIU financial transaction reports data
- Media/Internet
- 2009 SI ML/TF NRA
- 2014 APG Fraud Survey
- August/September 2016 ML/TF NRA Workshop
- Meetings with government and private sector entities (August/September 2016 and February 2017)
- October 2016 Questionnaire Responses (Government and Private Sector entities)
- March 2017 Questionnaire Responses

Threats, Vulnerabilities and Consequences

The highest priority need for action results from a combination of the highest level threats and the highest level vulnerabilities, combined with the most severe consequences of those ML/TF risks.

Threats

The highest level threats come from values associated with bribery/corruption, fraud, illegal logging, revenue/tax evasion, Illegal fishing and illegal gold export.

Bribery/Corruption - Is rated as being the **highest** threat to ML/FT in Solomon Islands. The Solomon Islands government is concerned at this level of corruption and bribery and procedures are being implemented to attempt to curtail corruption. It has yet to achieve results in respect of any major corruption cases. The Anti-Corruption Bill 2016 had been tabled in the Solomon Islands Parliament. It includes the establishment of the Solomon Islands Independent Commission Against Corruption (SIICAC) which can receive complaints and investigate Bribery/ Corruption. The SIICAC will be able to refer matters to other agencies and the DPP can initiate proceedings in respect of criminal matters associated with Bribery/Corruption. SIICAC will be provided with a range of powers to be provided to the SIICAC. The authorities responsible for investigating and prosecuting Bribery/Corruption must however collect and maintain better statistical information relating to the value of funds associated with Bribery/Corruption.

Fraud - The number of investigations of fraud related activity over the past three years is very high compared to the investigations of other predicate offence types. The value of funds associated with fraud and consequently available for the purposes of ML/FT is also very large. Although the range of funds involved in each of the frauds may be significantly different in values from very low to very high, the funds relating to each of the offences, regardless of size, and in aggregate will more than likely be laundered and are rated as **High**. SI respondents to the 2014 APG Fraud survey, noted widespread misuse of officials' funds, or office for private financial gain. According to officials, millions of dollars are lost through fraud by government employees. Despite the low values provided in the 2014 APG Fraud survey in respect of Fraud offences (less than \$1 million in 2014) when this value is linked with Fraud related ML (more than \$5 million), it is likely that values associated with Fraud will be much higher. The participants of the ML/FT workshops and respondents to the questionnaires issued for the purposes of this ML/FT NRA consider that Fraud is rated as a high threat for the purposes of ML/FT. Funds related to Fraud which may be available for ML/FT in Solomon Islands are estimated to be in the **High** range, that is, Fraud is likely to amount to over \$10 million per annum.

Illegal Logging - There is no statistical information provided by the Solomon Islands agencies responsible for investigation and prosecution of Illegal Logging relating to the funds values associated with the crime. It is likely however, that the funds associated with each offence of Illegal Logging are likely to be relatively high. It is also highly likely that the funds associated with offences of Illegal Logging will be laundered offshore. Analysis of all of the data provided for this ML/FT NRA has clearly raised Illegal Logging as a **High** crime threat in SI.

Revenue/Tax evasion - Is very evident in the Solomon Islands and has resulted in a range of cases before the courts. Statistically, the funds associated with tax evasion have been identified by the authorities as being **High** and it is likely that those funds may be used in the process of ML/FT in Solomon Islands. Solomon Islands respondents to the 2014 APG Fraud survey, noted that millions of dollars are lost through a lack of capacity to enforce revenue collection or to recover overpayments. The SIFIU analysis of STRs for 2015 indicated that Tax Evasion was continuing as a significant threat for ML/FT.

Illegal Fishing - There is no statistical information provided by the Solomon Islands agencies responsible for investigation and prosecution of Illegal Fishing relating to the funds values associated with the crime. It is likely however, that the funds associated with each offence of Illegal Fishing are likely to be relatively high. It is also likely that the majority of the illicit funds will be laundered offshore. The authorities must also commence to collect and maintain these statistics. Analysis of all of the data provided for this ML/FT NRA has clearly raised Illegal Fishing as a **High** ML/FT threat in SI.

Illegal Gold Export - The possible under-declaration by alluvial gold exporters results in evasion of export duties. In the past five years, the local price for alluvial gold has ranged between \$250 per gram and \$295 per gram while the implicit average unit price calculated from C&E Exporter Declaration Forms was around \$115 per gram. Alluvial gold exports are alleged to be used by some exporters as a scheme to repatriate funds offshore. Locals involved in alluvial gold received an income of \$163 million over the past four years, which is not captured in the formal economy. Under the exchange control regulations, all exporters are expected to remit the entire proceeds of their exports unless stated otherwise in an agreement with CBSI. There have been allegations that exporters may use this product as a scheme to repatriate funds illegally overseas. It is likely that the funds associated with each offence of Illegal Gold Export would be relatively high, and likely in the tens of millions of dollars, thus being a **High** ML/FT threat.

There is also a wide range of other predicate offences that will also be likely to contribute to ML/FT in SI.

Vulnerabilities

Vulnerabilities include those areas in which the ML/FT threat can be realised, or those areas that could contribute to or facilitate the implementation of ML/FT in SI. Some of the most significant vulnerabilities involve the following issues.

Cash Economy - Solomon Islands is a developing country with a slowly growing economy. The economy of the Solomon Islands is gradually moving from a cash based economy to being more reliant on electronic transactions. However, cash is still a significant component of the economy. The movement of funds, both cash and overseas remittances, have also been identified as a concern. Although there is limited information available on the source of illicit transnational flows of funds into and through the Solomon Islands, it is possible that money launderers and terrorism financiers in other countries may use the Solomon Islands financial and non-financial sectors, to move and attempt to hide illicit funds. The movement of cash into and out of the Solomon Islands by travellers and others raises concern, particularly where the controls are limited or non-existent, such as with the "transit" passengers on cruise vessels stopping in the Solomon Islands. The Solomon Islands Customs and Excise has initiated a strategy to assist in this problem area, particularly with regard to "transit" cruise vessel passengers.

Financial and Non-Financial Sectors - The Solomon Islands financial and non-financial sectors have a number of vulnerabilities which can lead to the escalation of ML/FT. In the financial sector, the Banks, Credit Unions, Money Transfer Services, Money Changers and Finance Companies, are considered to be highly vulnerable to ML/FT. A significant portion of the ML/FT risks are borne by the banks with regard to illicit cash and electronic funds. The CBSI is the supervisor of those entities which goes some way to mitigate the risk in the banks. Nonetheless, the overall risk to the sector remains high. The banks, money remitters and money changers are responsible for all money transmission services and currency exchange businesses which create channels for placement and movement of cash proceeds. Although there is a growing use of electronic financial technologies, this is expected to increase further in the future, particularly as there is a very high take up on mobile phone technologies amongst citizens of the Solomon Islands.

Supervisory Resources - The vulnerabilities are enhanced due to the inadequate resources of the AML/CFT supervisor (SIFIU) and other supervisors and licence givers. This contributes to the inability to assess the real ML/FT vulnerabilities of the many entities with responsibilities under the MLPCAA. In addition there is generally very little follow up by the supervisors and licence givers with regard to many entities with the

exception of the banks and a very few other entities. In the non-financial sectors, the current lack of, or very limited, government supervision of casinos, real estate agents, dealers in precious metals and stones would rate them highly in terms of the potential to be caught up in the facilitation of ML/FT. Other entities with obligations under the MLPCAA that were found to be less, but moderately vulnerable were the legal and accounting professions, insurance companies and the superannuation/provident fund. Other entities not included in the MLPCAA were also considered. Non-Government Organisations/Not-for-Profit Organisations/Civil Society Organisations (NGOs/NPOs/CSOs), dealers in motor vehicles, vessels, war relics and other high value goods were also rated to have a moderately high vulnerability to ML/FT.

There has been a high level of cross party political will to ensure that significant legislative reform has recently been carried out in the Solomon Islands and that ML/FT are addressed as a priority. Although the ML/FT related laws are generally adequate, some amendments to the laws have been identified and are required to strengthen the AML/CFT system, such as inclusion of the NGOs/NPOs/NCOs in the MLPCAA. The MLPCAA provides agencies with largely adequate powers to detect and deter ML/FT, however full implementation of those powers is essential and adequate technical and human resources must be provided to ensure the effectiveness of the laws and to minimise the ML/FT risks. These are significant deficiencies in the Solomon Islands AML/CFT program and must be addressed urgently.

Technical Resources - Although most government agencies have a reasonable level of technical resources such as computers and software to assist them in their AML/CFT system, some agencies require further technologies to ensure the overall AML/CFT system is effective, importantly, that includes the SIFIU which is unable to adequately provide timely analysis all of the Financial Transaction Reports data that it receives.

Financial Transaction Reports - The transactional reporting component of the AML/CFT system provides a very low level of financial transaction reports, mainly reported by the banks. The SIFIU must ensure all mandatory threshold reports and suspicious transaction reports are provided by the financial institutions, cash dealers and legal practitioners with responsibilities for reporting financial transactions, and all other requirements under the MLPCAA. The SIFIU has a major central role in the AML/CFT system, to provide training, guidance and conducting on-site inspections of all of the financial institutions, cash dealers and legal practitioners. For the SIFIU to effectively perform its important central role in the Solomon Islands AML/CFT program, the SIFIU requires additional supervisory resources for it to provide guidance, training and adequate on-site inspections. The SIFIU also needs to increase its analytical capacity to support the intelligence value of the reports, and consequently that ML/FT is being identified. It also requires additional technology to collect FTR information and to analyse and disseminate its financial intelligence.

AML/CFT coordination - At the government level this is generally good. The formal framework, such as Memoranda of Understanding (MOU), are largely in place and AMLC, AMLTEG and Anti-Money Laundering Reporting Officers (AMLROs – from the banks, two insurance companies and a money transfer service), each meet quarterly to discuss AML/CFT issues. However, it is important to ensure that the work of the range of task forces and groups are effective and include work programs to assist the SI AML/CFT program.

Investment - With regard to investment in the Solomon Islands, it is relatively low now, but the government's strategy is to seek more investment. This will come through international funds and is a significant aspect to the Solomon Islands strategy for economic growth. This may create a higher likelihood of the services being used to facilitate ML/FT through illicit funds flows and must be managed closely.

Real Estate – There is a risk that proceeds of crime from domestic and overseas offenders may be layered through real estate deals, which is of moderate concern.

Likelihood

Likelihood is a function of threats and vulnerabilities. The likelihood of an event occurring is influenced by a number of factors, including SI's capability to address the ML/FT threats and vulnerabilities and takes into account the successful implementation of control strategies and legislative provisions. Likelihood also covers factors such as trends, available intelligence, and offender characteristics. Risk is determined by cross referencing the assessed likelihood of an event with its assessed consequence.

In this ML/FT NRA, analysis of Likelihood will involve consideration of the most significant Threats and the most significant Vulnerabilities.

- **Highly Likely** - Credible and current information/ intelligence exists indicating that activity of this type is almost certain to occur in the future unless disrupted

It is **highly likely** that ML/FT may eventuate from the relationship between the identified **High** predicate crime **Threats**: Bribery/Corruption; Tax Evasion; Illegal Logging; Illegal Gold Export; Fraud; Illegal Fishing; when linked to the **Functional Vulnerabilities** of the following items: Political Will; Legislation; AML/CFT Capacity and Expertise; AML/CFT Training; AML/CFT Technical Resources; Institutional Factors; Cash Economy; Cross Border Movement of Currency; Revenue/Tax Collection; Import/Export Controls; Foreign Investment Controls; Industries Controls; Remittances; and, Level of Unemployment. Also, those crime **Threats** linked with the following **Sectoral Vulnerabilities**: Banks; Finance Companies; Money Transfer Services; Money Changers; Casinos; and, Dealers in precious Metals and Stones.

Consequences

Consequences take into consideration the effect of an event occurring, including the impact or harm that ML/FT and the effect of the underlying criminal activity on financial systems and institutions as well as on the economy and society more generally. The consequences of ML/FT may be short or long term in nature and relate populations, specific groups of people, the business environment, other national and international interests, as well as the reputation and attractiveness of the Solomon Islands financial sector. The recognition that there are specific consequences of ML/FT threats and vulnerabilities assists in assigning a relative value or importance to ML/FT risks.

In considering consequences in this NRA a range of factors may be relevant in determining the amount of harm. Those factors include the national economic impact, the impact on national and regional interests, the impact on a financial sector or individual businesses, and reputational concerns.

The highest level threats and vulnerabilities when linked together will create the highest level of harm in the Solomon Islands, that is Severe, Major or Moderate consequences. In respect of Terrorism Financing, the consequences will always be at the Severe or Major levels.

- **Severe** - Severe national economic impact; or Severe impact on national and community interests; or Severe impact on an industry sector; or Global reputational concerns

It can be seen from the following table that **Severe Consequences** of ML/FT may eventuate from the relationship the identified significant predicate crime **Threats**: Bribery/Corruption; Tax Evasion; Illegal Logging; Illegal Gold

Export; Fraud; Illegal Fishing; when linked to the **Functional Vulnerabilities** of the following items: Political Will; Legislation; AML/CFT Capacity and Expertise; AML/CFT Training; AML/CFT Technical Resources; Institutional Factors; Cash Economy; Cross Border Movement of Currency; Revenue/Tax Collection; Import/Export Controls; Foreign Investment Controls; Industries Controls; Remittances; and, Level of Unemployment. Also, those crime **Threats** linked with the following **Sectoral Vulnerabilities**: Banks; Finance Companies; Money Transfer Services; Money Changers; Casinos; and, Dealers in Precious Metals and Stones.

Level of Risk

The level of seriousness of individual risks in terms of their impact or influence as well as the probability of their realization will provide an estimate of the level of risk.

The **very highest level of risk** of ML/FT may eventuate from the relationship of the identified significant predicate crime **Threats**: Bribery/Corruption; Tax Evasion; Illegal Logging; Illegal Gold Export; Fraud; Illegal Fishing; when linked to the **Functional Vulnerabilities** of the following items: Political Will; Legislation; AML/CFT Capacity and Expertise; AML/CFT Training; AML/CFT Technical Resources; Institutional Factors; Cash Economy; Cross Border Movement of Currency; Revenue/Tax Collection; Import/Export Controls; Foreign Investment Controls; Industries Controls; Remittances; and, Level of Unemployment. Also, those crime **Threats** linked with the following **Sectoral Vulnerabilities**: Banks; Finance Companies; Money Transfer Services; Money Changers; Casinos; and, Dealers in precious Metals and Stones.

Risk Priority

All of the Threats linked with many of the Vulnerabilities will result in a Very High or High Level of Risk. This is a major concern for SI, as attention is needed in all areas. With so many potential Very High and High level ML/FT risks, it will not be possible to immediately implement all of the essential mitigating strategies to minimise all of the risks. It is therefore important to consider closely what priority needs to be allocated to those risks.

In prioritising the ML/FT Risks, we need to look not only at the specific ML/FT risks involving the predicate crimes and vulnerabilities, but also underlying factors that can influence the severity of those ML/FT risks. Addressing the underlying issues as the highest priority should assist to better understand and consequently address the specific ML/FT Threats and Vulnerabilities. Those underlying issues are:

- Lack of adequate resourcing of Supervisory and Licence giving agencies and law enforcement and operational agencies
- Inadequate recording and maintaining all appropriate statistics relevant to threats and vulnerabilities
- SIFIU – Very limited effective supervisory role and program for all financial institutions, cash dealers and legal practitioners
- Non-enactment of the Anti-Corruption Bill law and the need to fully implement its provisions
- The need to expand the already initiated discussions between Customs and Ministry of Tourism to include the shipping agencies and cruise shipping companies on BCRs
- Urgent need to pursue Counter Terrorism and Financing of Terrorism Programs

Financing of Terrorism

The views of government agencies and private sector representatives have been obtained to evaluate the possibility of terrorist related activities in SI. This information was obtained through the 2014 Fraud Survey, the 2016 NRA Workshop and the 2017 Questionnaires. Terrorism was not considered in the 2009 NRA.

Although there has been no identification of the financing of terrorism in the Solomon Islands it is possible that financing of terrorism threats may derive from many of the crimes listed in the Solomon Islands Penal Code regardless of the value, or from legitimate funds. In addition, the likelihood of FT will be very dependent on the level of the vulnerabilities or weaknesses in the Solomon Islands systems and institutions. Because of the current situation with regard to widespread terrorism and terrorist activities globally, the limited program to counter the financing of terrorism in the Solomon Islands, the growth of social media and the level of youth unemployment in Solomon Islands, all lead to the conclusion that the financing of terrorism will possibly increase within the domestic and regional context and must be watched closely.

The Counter Terrorism Act 2009 (CTA 2009) creates the offence of terrorist act (section 3) and terrorist financing (section 6). The MLPCAA has a range of reporting and compliance provisions relating to the offences of Terrorist Financing in the CT Act 2009.

There is very limited information or statistical data relating to terrorism, terrorist related activities or the financing of terrorism in SI. There has been some minor "home grown terrorism" activities since 1999, however these appear to have been controlled quickly. The primary focus of investigators has been to eradicate any terrorism related offences. The few terrorism related acts that have occurred in SI have generally been very minor and it has been difficult to identify the amount and source of funds involved in these offences. It is considered that any such funds were likely to have been very small. There has been little, if any, evidence of the financing of terrorism in SI. Consequently, there have not been any cases of terrorism financing in SI. The potential range of terrorism related activities, domestically and abroad, may lead to an increase in the level of FT in the next few years.

There is an absence of programs and policies on terrorism financing. All of the vulnerabilities identified in Chapter 4 of this ML/FT NRA equally apply to FT. Following are some specific issues concerning terrorism financing.

Capacity: Resource constraints, corruption, lack of training for law enforcement and border security officials, and general capacity issues continue to raise concerns for the SI government's ability to interdict possible terrorists.

Geographic and Infrastructure: SI continued to make progress in improving border security, although effectively policing its borders is a difficult task requiring more resources and capabilities than are available to the SI government.

Population: The unemployment rate may lead to greater concerns of funds generating predicate crimes being committed, including financing of terrorism, particularly where the unemployment may be largely juveniles and young adults.

Laws: The Government of SI is taking all necessary measures to fulfill its international obligations to combat terrorism and extremism. The SI government can prosecute terrorists and the financiers of terrorism under the CT Act 2009.

Cooperation and coordination: SI law enforcement bodies lack sufficient interagency cooperation and information sharing capabilities with regard to terrorism financing.

International cooperation: SI should seek to increase law enforcement capacity to conduct tactical operations through bilateral and multilateral assistance programs.

Courts and Judiciary: The judiciary is likely to be equipped to hear cases involving terrorism and terrorism financing, but may need additional training before hearing such cases.

Communications: Stemming violent extremism and radicalization in SI through the use of social media should be a priority for the SI government.

Non-Profit Organizations (NPOs): NPO's are particularly vulnerable to abuse for the purposes of the Financing of Terrorism by terrorist

organisations posing as legitimate entities; to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset-freezing measures; and to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organisations.

Likelihood of Terrorism Financing - Although the value of funding likely to be involved in terrorism financing involving SI and its citizens is small, the vulnerabilities generally remain high. The potential for FT to occur in SI should be considered to be likely to eventuate in the future. Consequently, the likelihood of the financing of terrorism financing in SI should be rated as **Highly Likely to Medium**. That is, activity of this type will possibly occur in the future unless disrupted through to activity of this type is almost certain to occur in the future unless disrupted.

Consequences of Terrorism Financing - A major distinction between the consequences of ML and the consequences of FT is that although the consequences may vary in ML depending on the function of threats and vulnerabilities, in FT, the consequences will always be at the **major or severe** levels. An additional factor is the very real consequence of injury to persons or loss of life.

Level of Risk of Terrorism Financing - As the likelihood of FT is rated at Highly Likely to Medium and the consequences of FT are rated as Severe or Major, the level of risk to FT would be **Very High to High**.

Risk Priority for Terrorism Financing - As the likelihood of FT is rated at Highly Likely to Medium, the consequences of FT are rated as Severe or Major, and the level of risk is rated Very High to High, the level of risk priority for FT should be **Very High to High**. That is, strategies to counter terrorism financing should be implemented immediately or as soon as possible.

Proliferation Financing

Proliferation financing refers to the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate), in contravention of national laws, or where applicable, international obligations.

In SI, the proliferation of weapons of mass destruction is addressed in the Counter Terrorism Act 2009 (No. 12 of 2009) (CT Act)

An amendment should be made to section 6 of the CT Act to ensure that it does include specific reference to Proliferation Financing as an offence.

Although issues relating to Proliferation Financing are in the CT Act, there is no policy or operational agencies presently involved in considering the issue of Proliferation Financing. This should be considered as a strategy going forward.

Mitigating Strategies

There are six strategies of urgent concern to the Solomon Islands AML/CFT system. Immediate attention to these issues will assist to minimise the most significant ML/FT risks identified in the NRA.

Resourcing of Supervisory and Licence giving agencies and law enforcement and operational agencies - The SI government has provided a range of legislation which underpins the SI AML/CFT program. That legislation requires a wide range of financial institutions, cash dealers and

legal practitioners to meet obligations within the AML/CFT program and also to obtain licences and be supervised in their daily activities, which also consequently has a bearing on the AML/CFT program. Almost without exception, the government agencies with responsibilities in these area are significantly under-resourced and are unable to fully perform their responsibilities as supervisors or licence givers under the range of legislation. All agencies should be required to submit to government a list of their resource deficiencies in fully implementing their programs, and the government must consider urgently how to allocate the necessary resources to these government agencies. The SI government must review its human and technical resourcing and where necessary consider funding (both domestic and donor funding) and priorities to provide qualified human resources and new and adequate technologies to supplement its AML/CFT system.

Statistics and Data Collection - To prepare a detailed ML/FT NRA a wide range of statistics and other data is required. It has been very evident from the work on this ML/FT NRA that much of the essential statistics and information is not collected and maintained. Consequently, this ML/FT NRA has relied very heavily on the views, and expertise of many government and non-government entities and persons. In particular, funds associated with predicate crimes and the entities and products of the financial institutions, cash dealers and legal practitioners through which those funds are involved in the ML/FT process are required to be collected. In addition, all data and statistics listed in the various questionnaires developed for this ML/FT NRA should be included and be collected. The SI government should implement a program to ensure that all relevant government agencies identify, document and immediately collect and analyse all of the essential data required to conduct an effective and efficient ML/CFT NRA. This should be supervised by the AMLC.

Effective AML/CFT Supervisory Program - Financial institutions, cash dealers and legal practitioners are the vehicles through which illicit funds are involved in the process of ML/FT. Limited supervisory capacity definitely contributes to the high risk levels of those financial institutions, cash dealers and legal practitioners in the SI AML/CFT program. To reduce the high level of risk of the various financial institutions, cash dealers and legal practitioners, the SIFIU, in conjunction with each of the other supervisors and licence givers, must undertake more extensive and frequent off-site and on-site supervision of all of the financial institutions, cash dealers and legal practitioners. In addition, the SIFIU must:

- Ensure that the SIFIU has adequate and effective resources to fully supervise all financial institutions, cash dealers and legal practitioners, including, where necessary, to enforce appropriate sanctions
- Ensure that all financial institutions, cash dealers and legal practitioners are provided with adequate guidance and information and training
- Review the adequacy and effectiveness of all regulation in respect of the authorisation and registration/licencing, supervision and inspection, and sanctions for financial institutions, cash dealers and legal practitioners in the SI AML/CFT program
- Ensure each of the supervisors and licence givers have adequate human and technical resources to fully supervise all financial institutions, cash dealers and legal practitioners, including, where necessary, to enforce appropriate sanctions
- Ensure that NGOs/NPOs/CSOs are legislatively included MLPCAA and have obligations similar to financial institutions, cash dealers and legal practitioners, and that the SIFIU is their supervisor for AML/CFT purposes.

Enacting and Implementing the Anti-Corruption Laws - In this ML/FT NRA, Bribery/Corruption has been clearly identified as the highest level ML/FT threat, and has remained so for at least the past 8 years, having first been identified in the SI 2009 ML/FT NRA. The Anti-Corruption Bill 2016 was before the SI Parliament for some time. To assist to counter the most

significant ML/FT threat of Bribery/Corruption, it is imperative that the Anti-Corruption law is enacted as a matter of high priority and is fully implemented and adequately resourced to ensure effectiveness of the program to counter Bribery/Corruption and to minimise this threat in the SI AML/CFT program. There should also be an on-going formal review of all laws related to the SI AML/CFT program and any necessary amendments are identified, so that these can be enacted as a matter of urgency.

Cross Border Movement of Currency - A significant concern in the SI AML/CFT program is the continuing use of cash in SI and the unknown value of cash entering and leaving SI. Although SI is generally considered to have a slowly diminishing cash economy, the cash economy is still considerable when considering the CBSI financial data and from analysis of the financial transaction reports reported to the SIFIU. Complicating this issue is that there are major concerns with regard to Cross Border Movements of Currency. Particularly the cruise vessel passengers being treated as transit passengers and consequently there being no requirement on them to declare currency or bearer negotiable instruments. These transit passengers can easily move cash on and off the Cruise vessel while it is in an SI Port. It is essential that this strategy involves a requirement that cruise vessel passengers declare currency, and bearer negotiable instruments, when disembarking from and embarking onto the cruise vessels. Some discussions have commenced between Customs and Excise and the Ministry of Tourism, considering ways in which the effect on cruise passengers, cruise vessel staff and SI Customs and Excise and Immigration representatives can be minimised. One issue being considered is that all passengers intending to disembark and re-embark in SI ports must complete BCR Forms prior to arrival, possibly in an electronic format and these be provided by the cruise vessel staff to SI Customs and Excise, either upon arrival or prior to arrival electronically. These discussions must be elevated urgently and include the Cruise Vessel Agents and Cruise Companies. This is also a significant issue across the Pacific region. The inclusion of representatives of other Pacific Island countries in developing an appropriate strategy would also be of great value. In addition, all passengers must be more closely scrutinized at the airports, and operators, passengers and other seafarers must also be more closely scrutinised to ensure that they appropriately report all BCRs.

Terrorism and Financing of Terrorism Programs - The SI government has already implemented a range of strategies to counter terrorism and the financing of terrorism. SI must continue and where possible extend these strategies. In addition, the SI government should consider the following strategies in respect of terrorism and terrorism financing.

Capacity - Ensure adequate human resources, training and skill development to identify, investigate and prosecute FT

Identification of perpetrators and finances - Focus intelligence and investigation to identify perpetrators, their funds, the types of entities and products used to move the funds, and ensure that suspicious reports are made to the SIFIU

Infrastructure - Improve technical resources for law enforcement and the SIFIU and continue developing border security

Cooperation and coordination - Continue and enhance the development of cooperation and coordination at the domestic and global levels

Employment - Review strategies to reduce unemployment and the need for citizens to seek work abroad

Communications - Enable law enforcement ready access to communications for intelligence and surveillance of communications involving high risk individuals and entities

Laws - Continue to maintain and develop laws relating to FT

Additional Mitigating Strategies for Threats and Vulnerabilities

In respect of each of the predicate crimes that generate illicit funds, and all of the potential vulnerabilities, the SI ML/FT NRA provides a wide range of

strategies that should be considered with regard to each of those threats and vulnerabilities.

Strategies for Proliferation Financing

There are two areas that specifically require consideration by the Solomon Islands government with regard to PF.

Laws - Develop and maintain laws relating to PF

Capacity - Ensure adequate human resources, training and skill development to develop policy and identify, investigate and prosecute PF.

Conclusion

The Solomon Islands has a good framework for its AML/CFT program, albeit resourcing limitations strongly constrain the effectiveness of the program. Most necessary legislation has been introduced, AML/CFT supervisors are operational, however full implementation of the legislation is still lacking. It is now imperative to ensure that the Solomon Islands AML/CFT system becomes effective and all ML/FT risks are identified and where possible addressed appropriately.

This ML/FT NRA, the second for the Solomon Islands, is very broad, lacks a good statistical basis, and relies heavily on the "expert" views of government and non-government representatives. It does however outline the high level of ML/FT risks and is consequently a foundation for the development of a more extensive assessment of ML/FT risk over the next five years. Critically, there has been a limited range of statistical and case materials available to assist the development of the ML/FT NRA. Statistical and other data will need to be collected and analysed, commencing immediately.

Although there is limited statistical data it is considered likely that the Solomon Islands do not have a major ML/FT risk. It must however implement the identified strategies to ensure that ML/FT does not escalate the level of ML/FT risk, any new ML/FT risks are identified at an early stage, and that mitigating strategies are implemented to minimise the level of that ML/FT risk. The ML/FT NRA provides a range of high priority strategies that should be implemented as soon as possible.

(NOTE: It is important that this summary is read in conjunction with the detailed 2017 Solomon Islands Money laundering and Terrorism Financing National Risk Assessment)