BANCO DE MOÇAMBIQUE

SECTORAL RISK ASSESSMENT OF MONEY LAUNDERING, FINANCING OF TERRORISM AND PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

- PRELIMINARY RESULTS -

MAPUTO CITY, MARCH 5, 2024

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1. BACKGROUND

In 2019, Mozambique underwent a mutual assessment by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), in order to assess its level of compliance with the 40 recommendations of the Financial Action Task Force (FATF), and measure the effectiveness of the domestic systems of AML/CFT;

From this assessment, the ESAAMLG concludes that several crimes pose high risks of AML/CFT for the country, namely: corruption, drug trafficking, human trafficking, wildlife trafficking, illegal trading in precious stones and metals and tax evasion.

1. BACKGROUND, CONTD.:

On the other hand, between July 2020 and March 2021, Mozambique carried out the National Risk Assessment (NRA) of Money Laundering (ML), and Terrorism Financing (TF) in order to identify the threats and vulnerabilities and understand the current risks in the AML/CFT framework, underpinned by the recommendations of the Financial Action Task Force (FATF), for a risk-based approach;

Following the NRA, the financial sector was considered medium-high risk, as the crimes identified in the ESAAMLG mutual assessment, pose a major ML/FT threat.

2. THE SECTORAL RISK ASSESSMENT OF AML/CFT

According to the FATF's recommendations, as well as the applicable Mozambican legislation, supervisory authorities shall carry out an ML/FTP sectoral risk assessment (SRA) at least once every two years or whenever it proves necessary;

The ML/FTP SRA does not replace the National Risk Assessment, given that they are complementary activities.

3. SRA GOAL

The SRA aims to improve the awareness and understanding between regulators and supervised entities of ML/FTP threats and vulnerabilities, so as to set priorities for allocating resources, and ultimately mitigate identified risks, supported by a risk-based approach.

4. METHODOLOGY

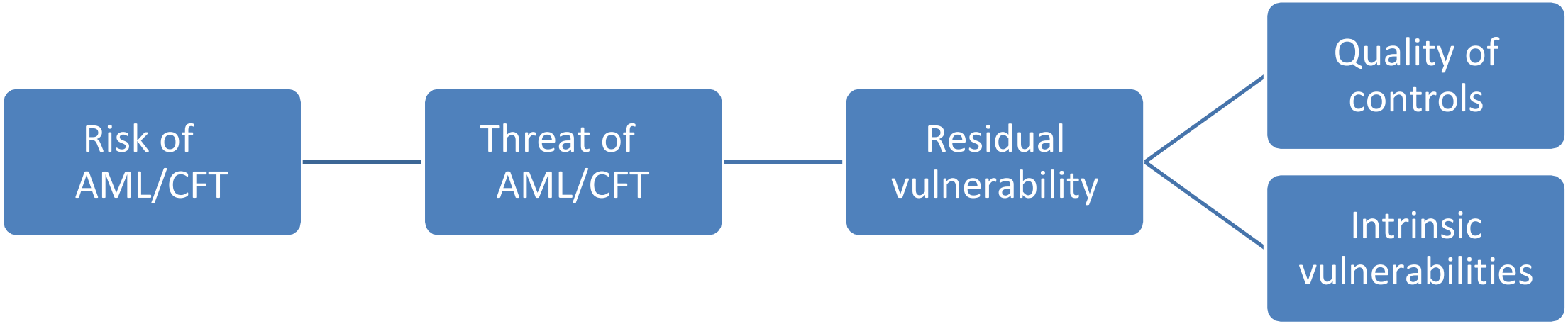
The SRA methodology regarded the organization of the sector supervised by the Banco de Moçambique. In this light, the supervised institutions are organized into five groups of institutions, namely:

- Credit institutions;
- Microfinance institutions;
- Foreign exchange offices;
- Payment service providers (money remitters, payment aggregators and mobile money institutions);
- Virtual asset service providers (no formally known activities as of yet).

4.METHODOLOGY CONT.:

- For each group of institutions, the risk aspects concerning the main products/services, customers, distribution channels, and geographical location were analyzed.
- In order to ascertain the ML/FTP risk, the degree of residual vulnerability resulting from the combination of the quality assessments of controls for AML/CFTP and intrinsic vulnerabilities, as well as sector threats, as per the figure below.

4. METHODOLOGY. CONTD.:



4.METHODOLOGY CONT.:

In order to assess the quality of the AML/CFTP for each of the institution groups, ratings will be assigned to a set of factors that determine the robustness of control measures, namely:

- The current regulatory framework;
- The AML/CFTP oversight/inspection;
- Administrative measures and sanctions;
- Criminal sanctions;
- Procedures for controlling access to the business/profession;
- Suitability and qualification of managers and other employees;
- Regulatory compliance control;
- Monitoring and reporting suspicious transactions;
- Information on beneficial owners;
- National identification system and independent sources of information.

4. METHODOLOGY. CONT.:

A. GENERAL AML INPUT VARIABLES/ CONTROLS	ASSESSMENT RATING	
Scope of AML legal framework	(0.7) High	0.7
Effectiveness of supervision/surveillance activities	(0.5) Medium	0.5
Availability and enforcement of administrative sanctions	(0.7) High	0.7
Availability and enforcement of criminal sanctions	(0.4) Medium Low	0.4
Availability and effectiveness of input controls	(0.5) Medium	0.5
Integrity of company/institution	(0.5) Medium	0.5
Company/institution AML awareness	(0.5) Medium	0.5
Effectiveness of compliance function (organization)	(0.4) Medium Low	0.4
Effectiveness of suspicious activity monitoring and reporting	(0.4) Medium Low	0.4
Availability and access to actual benefit information	(0.3) Low	0.3
Availability of reliable identification infrastructure	(0.5) Medium	0.5
Availability of independent sources of information	(0.5) Medium	0.5

4.METHODOLOGY CONTD.:

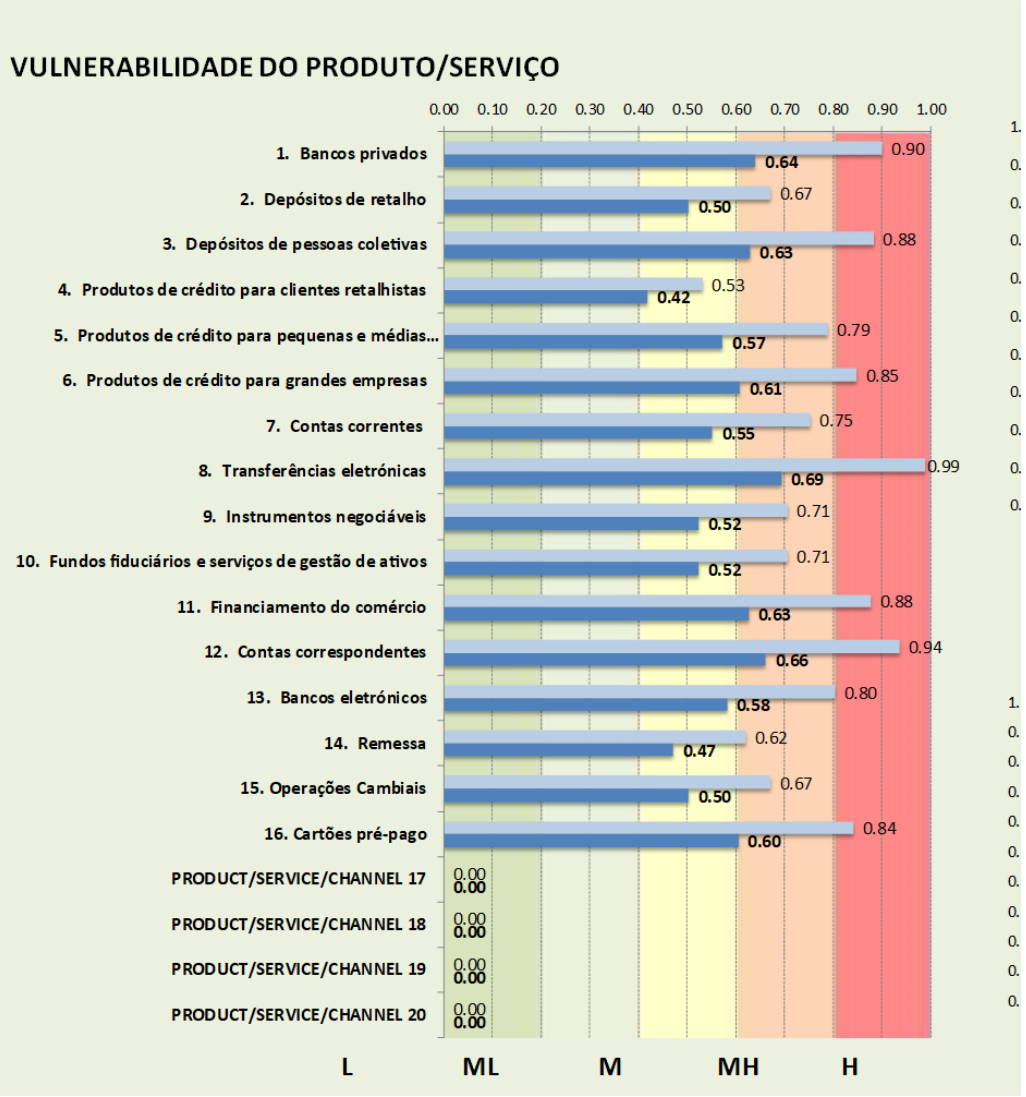
The assessment of the degree of intrinsic vulnerability of each of the institutional groups resulted from the measurement and weighing of a set of context factors and a list of intrinsic vulnerabilities, assessed by each product, service, or business, namely:

- Contextual factors: result from the identification, analysis, and evaluation of the importance of the activity in the national economy, measured by variables such as the size of the product, overall value of operations, number of obliged entities, average value of operations and ML/FTP risk profile of the standard customer;
- Intrinsic vulnerabilities: these include general vulnerabilities and vulnerabilities identified in the SRA 2020/2021, assessed on the basis of likelihood of occurrence and impact on sector, highlighting:

4. METHODOLOGY. CONT.:

B. INHERENT VULNERABILITY FACTORS (FOR CREDIT INSTITUTIONS)	GENERAL ASSESSMENT FOR CREDIT INSTITUTIONS
Total size / volume of the credit institutions category	Medium High
Customer base profile of the credit institutions category	Medium Risk
Use of agents in the credit institutions category	Medium Low
Level of cash activity in the credit institutions category	Medium
Frequency of international transactions in the credit institutions category	Low
Other vulnerable factors - anonymous use of the credit institutions category product	Not Available
Other vulnerable factors - difficulty tracking transaction records	Easy to Trace
Other vulnerable factors - existence of ML typologies on abuse of the credit institutions category	Does not Exist
Other vulnerable factors - lack of monitoring system	Exist
Other vulnerable factors - remote use of product in credit institutions category	Available
Other vulnerable factors - provision of value remittance service	Medium
Other vulnerable factors - possibility or lack thereof of access to information in other partner institutions	Medium
Other vulnerable factors - filtering names from the United Nations Security Council list	Medium

4. METHODOLOGY CONTD.:



4.METHODOLOGY CONTD.:

The threat assessment considered the crimes identified in the mutual ESAAMLG, namely corruption, drug trafficking, human trafficking, wildlife trafficking, illegal trading in precious stones and metals, and tax evasion.

5. RESULT OF RISK ASSESSMENT BY SECTOR

BANKING SECTOR

- THREAT: HIGH;
- VULNERABILITY: MEDIUM;
- RISK: MEDIUM-HIGH.

AMEAÇA	A	M	M	MA SECTOR BANCARIO	A	A
	MA	M	M	MA	MA	A
	M	MB	M	M	MA	MA
	MB	MB	MB	M	M	M
	B	B	MB	MB	M	M
		B	MB	M	MA	A
	VULNERABILIDADE RESIDUAL					

5. RESULT OF RISK ASSESSMENT BY SECTOR. CONT.

MOBILE MONEY INSTITUTIONS – Focus on Financing of Terrorism

- THREAT: HIGH;
- VULNERABILITY: MEDIUM-HIGH;
- RISK: HIGH.

AMEAÇA	A	M	M	MA	A IME	A
	MA	M	M	MA	MA	A
	M	MB	M	M	MA	MA
	MB	MB	MB	M	M	M
	B	B	MB	MB	M	M
		B	MB	M	MA	A
	VULNERABILIDADE RESIDUAL					

5. RESULT OF RISK ASSESSMENT BY SECTOR. CONT.

EXCHANGE OFFICES

- THREAT: HIGH;
- VULNERABILITY: LOW AVERAGE;
- RISK: LOW.

AMEAÇA	A	M	M CC	MA	A	A
	MA	M	M	MA	MA	A
	M	MB	M	M	MA	MA
	MB	MB	MB	M	M	M
	B	B	MB	MB	M	M
		B	MB	M	MA	A
	VULNERABILIDADE RESIDUAL					

5. RESULT OF RISK ASSESSMENT BY SECTOR. CONT.

MICROCREDIT OPERATORS

- THREAT: HIGH;
- VULNERABILITY: LOW AVERAGE;
- RISK: MEDIUM.

AMEAÇA	A	M	M OMC	MA	A	A
	MA	M	M	MA	MA	A
	M	MB	M	M	MA	MA
	MB	MB	MB	M	M	M
	B	B	MB	MB	M	M
		B	MB	M	MA	A
	VULNERABILIDADE RESIDUAL					

5. PRIORITIES

For financial institutions:

- Employee training required;
- Ensuring the effectiveness of compliance function;
- Ensuring suspicious transaction monitoring and reporting.

Banco de Moçambique:

- Training;
- Increase the number of inspections;
- Awareness-raising activities with financial institutions for regulation compliance.

THANK YOU