

ESAAMLG ANNUAL REPORT

1 APRIL 2016 – 31 MARCH 2017

(incorporating 33rd Task Force meeting in April 2017)



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ESAAMLG Secretariat
P. O. Box 9923
Dar es Salaam
TANZANIA

Tel: +255 22 266 7895/ 7679
Fax: +255 22 266 8745
Email: executivesec@esaamlg.or.tz
Web: www.esaamlg.org

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ESAAMLG VISION, MISSION AND GOALS

Vision	<i>A strong and dynamic FATF Style Regional Body committed to combat money laundering, terrorist financing and proliferation in the Eastern and Southern Africa region.</i>
Mission	<i>To consolidate and sustain the combined efforts to combat money laundering and terrorist financing in the Eastern and Southern Africa region through effective implementation of AML/CFT standards in all ESAAMLG member countries.</i>
Strategic Objectives	<ol style="list-style-type: none"> <i>1. Effective Post Evaluation Implementation of AML/CFT measures in member countries;</i> <i>2. Sustaining the evaluation and monitoring of ESAAMLG members' compliance with the international standards against money laundering and terrorist financing under the second round of mutual evaluations;</i> <i>3. Increasing and sustaining the knowledge of money laundering and terrorist financing trends and techniques in the region in order to effectively contribute to regional and international AML/CFT policy formulation;</i> <i>4. Expansion of ESAAMLG membership;</i> <i>5. Strengthening regional and international cooperation among member countries;</i> <i>6. Enhancing ESAAMLG's cooperation and participation in AML/CFT regional and international initiatives;</i> <i>7. Prioritizing and consolidating regional AML/CFT capacity building, training and awareness raising programmes;</i> <i>8. Promoting the Implementation of AML/CFT measures and financial inclusion;</i> <i>9. Consolidating the sustainability and efficiency of the Secretariat.</i>

ACRONYMS AND ABBREVIATIONS

AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CDD	Customer Due Diligence
CFATF	Caribbean Financial Action Task Force
COSUNs	Cooperating Organisations and Supporting Nations
EAC	East African Community
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
FSRB	FATF Styled Regional Body
FT	Financing of Terrorism
GNCG	Global Network Coordination Group
ICRG	International Cooperation Review Group
IMF	International Monetary Fund
ME	Mutual Evaluation
MER	Mutual Evaluation Report
ML	Money Laundering
MoU	Memorandum of Understanding
NRA	National Risk Assessment
PPSD	Public/ Private Sector Dialogue
RBA	Risk Based Approach
RRG	Regional Review Group
SADC	Southern African Development Community
STR	Suspicious Transactions Report
TA & T	Technical Assistance and Training
UNCTED	United Nations Counter-Terrorism Executive Directorate
UNODC	United Nations Office on Drugs and Crime
WB	World Bank

FOREWORD BY THE PRESIDENT

This report highlights the major achievements of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) during the period 2016/2017. It is pleasing to note that, we as an organization, have made great progress in achieving our goals when measured against our Strategic Plan and Work Programme. These achievements have consolidated our position as an effective partner of the global network against money laundering and terrorist financing.



Hon. Patrick A. Chinamasa (right); President of ESAAMLG Council of Ministers and Minister of Finance and Economic Development, Zimbabwe

During the year the organisation continued its Second Round of Mutual Evaluations through the assessments of Botswana and Madagascar (done by the World Bank), with onsite visits taking place in June 2016 and February 2017 respectively and the discussion and adoption of the Botswana assessment report at the April 2017 Task Force meeting. The Mutual Evaluation Reports (MER) of Uganda and Zimbabwe were finalised and adopted by the Task Force of Senior Officials in April and August 2016 respectively and were both approved by the Council of Ministers before publication on the ESAAMLG website. The MER of Rwanda was also published on the ESAAMLG website after payment of its initial subscription in November 2016. The assessment of Mauritius has started and the report is scheduled to be completed for discussion and adoption at the April 2018 Task Force meeting.

The organization was also able to sustain an effective post evaluation monitoring process to promote the implementation of the FATF standards. Most countries are making good progress in addressing the deficiencies in their AML/CFT systems in accordance with the post evaluation implementation plans approved by the Council. The Efficiency Scrutiny exercise of ESAAMLG was finalized and outstanding work was handed over to the Steering Committee which will continue monitoring implementation of the recommendations of the Efficiency Scrutiny Report approved during the Council meeting in Johannesburg, South Africa in August 2015. Further to this, the Special Typologies project on *‘Poaching, Illegal Trade in Wildlife and Wildlife Products and Associated Money Laundering in the ESAAMLG Region’* that was adopted by the Task Force at its meeting in Arusha, in April 2016 was subsequently approved by the Council through a round robin process and published on the ESAAMLG website in July 2016. The Council has also approved a new typologies project on *“Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region”*, which is expected to be completed and adopted in August/September 2017. It is anticipated that member countries will benefit a great deal from the findings of these studies.

Finally, I want to express my sincere gratitude to the Council of Ministers, Task Force of Senior Officials and the Secretariat for supporting me during the last 12 months. I look forward to another successful year ahead under the Presidency of Tanzania.

Hon. Patrick A. Chinamasa

President of ESAAMLG Council of Ministers and Minister of Finance and Economic Development, Zimbabwe

FOREWORD BY THE EXECUTIVE SECRETARY

It is with pleasure, that I once again present the Annual Report for the period 1st April 2016 to 31st March 2017. This report outlines activities undertaken and achievements made by the ESAAMLG Secretariat in implementing the work programme approved by the Council in Johannesburg, South Africa for the Financial Year 2016/2017. It also outlines what the organization intends to undertake in the coming year.



Executive Secretary presenting a report during the Task Force meeting in Arusha, April 2017

The principal objective of the ESAAMLG Secretariat Work Programme for 2016/2017 was to enable ESAAMLG to continue to effectively monitor the post evaluation implementation of FATF Standards by all its member countries and continue with the Second Round of Mutual Evaluations. The work programme sought to implement activities which would ensure actual and effective implementation of the FATF Standards in all member countries.

In line with the Strategic Objectives and Work Programme, ESAAMLG has registered the following major outcomes:

Mutual Evaluation Programme

The schedule for the 2nd Round of Mutual Evaluations for the ESAAMLG member countries has been finalized and approved by the Council.

The Secretariat, conducted an Assessors Training Workshop in Johannesburg, South Africa in February 2017. This brings the total number of Assessors Training Workshops held by the ESAAMLG to three, including the ones held in Windhoek, Namibia in January 2014 and Victoria Falls, Zimbabwe in May 2014. The training was based on the revised FATF Standards, Assessment Methodology and the Mutual Evaluation Procedures.

The Mutual Evaluations for Botswana and Madagascar were conducted under the Second Round of Mutual Evaluations with onsite visits taking place in June 2016 and February 2017 respectively. Madagascar's Mutual Evaluation was conducted by the World Bank.

In addition, ESAAMLG continued to monitor Implementation of Post Evaluation Implementation Plans (PEIPs) for member countries in accordance with the ESAAMLG Mutual Evaluation Procedures.

Typologies

During the period under review, ESAAMLG has continued to review progress in the ongoing typologies projects.

The Secretariat published the report on *"Poaching, Illegal Trade in Wildlife and Wildlife Products and Associated Money Laundering in the ESAAMLG Region"* on its website in July 2016. The typologies concept note on *"Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region"* was approved by the Council of Ministers in September 2016 and is expected to be finalized and adopted by the Task Force at its meeting in Zanzibar, Tanzania in August/September 2017.

During the Task Force meeting in Arusha, Tanzania in March 2017, ESAAMLG considered a proposal made by Zambia to prepare a draft Concept Note on the next typologies project study

relating to “*Procurement corruption in the public sector and associated money laundering in the ESAAMLG region*”. It was agreed that Zambia would prepare and present a Concept Note on the proposed project at the next meeting in August/September 2017.

The Efficiency Scrutiny of ESAAMLG

The Task Force, at its meeting in April 2014, approved a proposal to undertake an Efficiency Scrutiny of ESAAMLG to determine amongst other issues, whether the organization is adequately resourced to implement the Revised FATF Recommendations, carry out the second round of its mutual evaluations and participate effectively in the Global AML/CFT network of the FATF. The Task Force subsequently constituted an Efficiency Scrutiny Working Group to undertake the exercise.

The Working Group’s final report was presented and approved by the Council during its Johannesburg meeting in August 2015. It further approved the extension of the mandate of the Working Group for one year to develop an Implementation Plan which include developing a costed programme for implementing the recommendations of the Report and submit a report at the Council meeting in September 2016.

During the April 2017 meetings in Arusha, the Task Force adopted the recommendations of the Working Group before handing over the outstanding issues and monitoring of the implementation of its Recommendations to the Steering Committee for follow up actions. The Steering Committee would commence its meetings, and provide reports to the Task Force as required starting from the August/September 2017 meeting.

I hope this Report would enable member governments and other interested bodies and organizations to appreciate the progress that ESAAMLG continues to make in addressing the challenges of developing effective AML/CFT regimes in all member countries.

Eliawony J. Kisanga

EXECUTIVE SECRETARY

OVERVIEW OF THE ESAAMLG

1.1 Background

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) was officially established in 1999 in Arusha, Tanzania through a Memorandum of Understanding (MoU) which was initially signed by nine founding members: Botswana, Kenya, Mauritius, Mozambique, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. As at the date of this Report, ESAAMLG membership comprises of 18 countries and also includes a number of regional and international observers such as AFI, AUSTRAC, COMESA, East African Community, Egmont, FATF, IMF, Interpol, Portugal, RECSA, SADC, United Kingdom, United States of America, UN Bodies and Committees, World Bank and World Customs Organization. The United Kingdom and United States of America have been cooperating and supporting nations of the organization since it was established in 1999.



Representatives from some Cooperating Organizations and Supporting Nations following the proceedings in Arusha, April 2017

The main objectives of ESAAMLG are to: (a) adopt and implement the 40 Recommendations of the FATF including the 11 Immediate Outcomes; (b) apply anti-money laundering measures to all serious crimes; (c) implement measures to combat the financing of terrorism and (d) implement any other measures contained in the multilateral agreements and initiatives relevant to prevention and control of laundering of proceeds of all serious crimes and the financing of terrorism.

The Council of Ministers is the key decision-making body of the ESAAMLG and consists of at least one ministerial representative from each member country. The Council is ultimately responsible for setting the strategic direction of the Group, including approving work programmes. It is headed by a President who holds office for a period of one year. The Presidency of the Council rotates among the member countries, currently on the basis of alphabetical order.

The Task Force consists of senior government officials from legal, financial and law enforcement agencies in the ESAAMLG region responsible for AML/CFT matters. It is headed by a Chairman, who is drawn from the country holding the presidency. The Task Force of Senior Officials meets twice a year (March/April and August/September). The meetings provide an opportunity for delegates to discuss a number of issues relevant to the FATF Standards, mutual evaluation reports, typology studies reports, technical assistance and training, financial inclusion, progress reports as well as attending special technical workshops/seminars on emerging money laundering and terrorist financing trends.



Mr. Mirirai Chiremba, Chairperson of the ESAAMLG Task Force of Senior Officials (2016/2017)

During the year under review, the Chairperson was Mr. Mirirai Chiremba of Zimbabwe.

The Task Force is responsible for all technical matters and makes recommendations to the Council for approval. Currently, the Task Force has established the Evaluation and Compliance Group (ECG); Risk, Trends and Methods Group (RTMG); Working Group on Risk, Compliance and Financial Inclusion (WG-RCFI); Legal Working Group; Technical Assistance and Training Coordination Forum (TA&T); FIU Forum; and the Finance and Audit Committee, which handle various assignments on behalf of the Task Force.



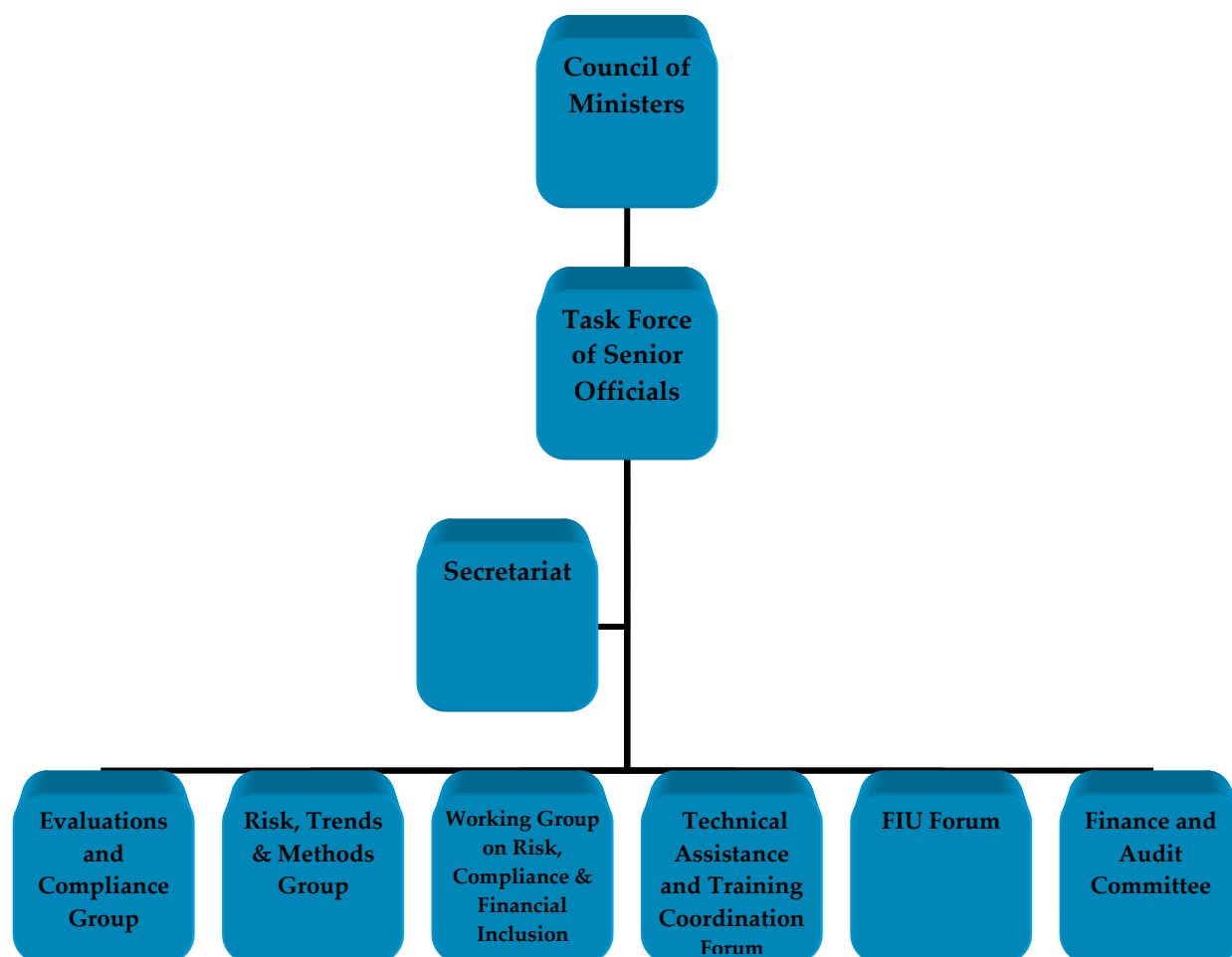
Delegates participating during the Legal Working Group meeting in Arusha, April 2017

The Secretariat is the hub of ESAAMLG and provides support to the Council of Ministers and the Task Force of Senior Officials. Among other things, it prepares policy and technical papers, organises Task Force and Council meetings, mutual evaluations, coordinates technical assistance and training, prepares annual budgets, annual work plans, financial statements and reports on all ESAAMLG activities.

1.2 Structure of the ESAAMLG

The following diagram provides the basic governance structure of the ESAAMLG which has been put in place to ensure smooth operations:

Figure 1: ESAAMLG Structure & Current Working Groups



1.3 ESAAMLG Relationship with Regional and International Organizations

ESAAMLG was admitted as an associate member of the FATF in 2010. Since only one ESAAMLG member country (South Africa) is an FATF member, this status allows non-FATF ESAAMLG member countries to attend FATF meetings, follow proceedings and take an active role in the process of AML/CFT global policy making.

ESAAMLG recognizes that money laundering and terrorist financing crimes are both national and transnational problems and therefore international collaboration and cooperation of

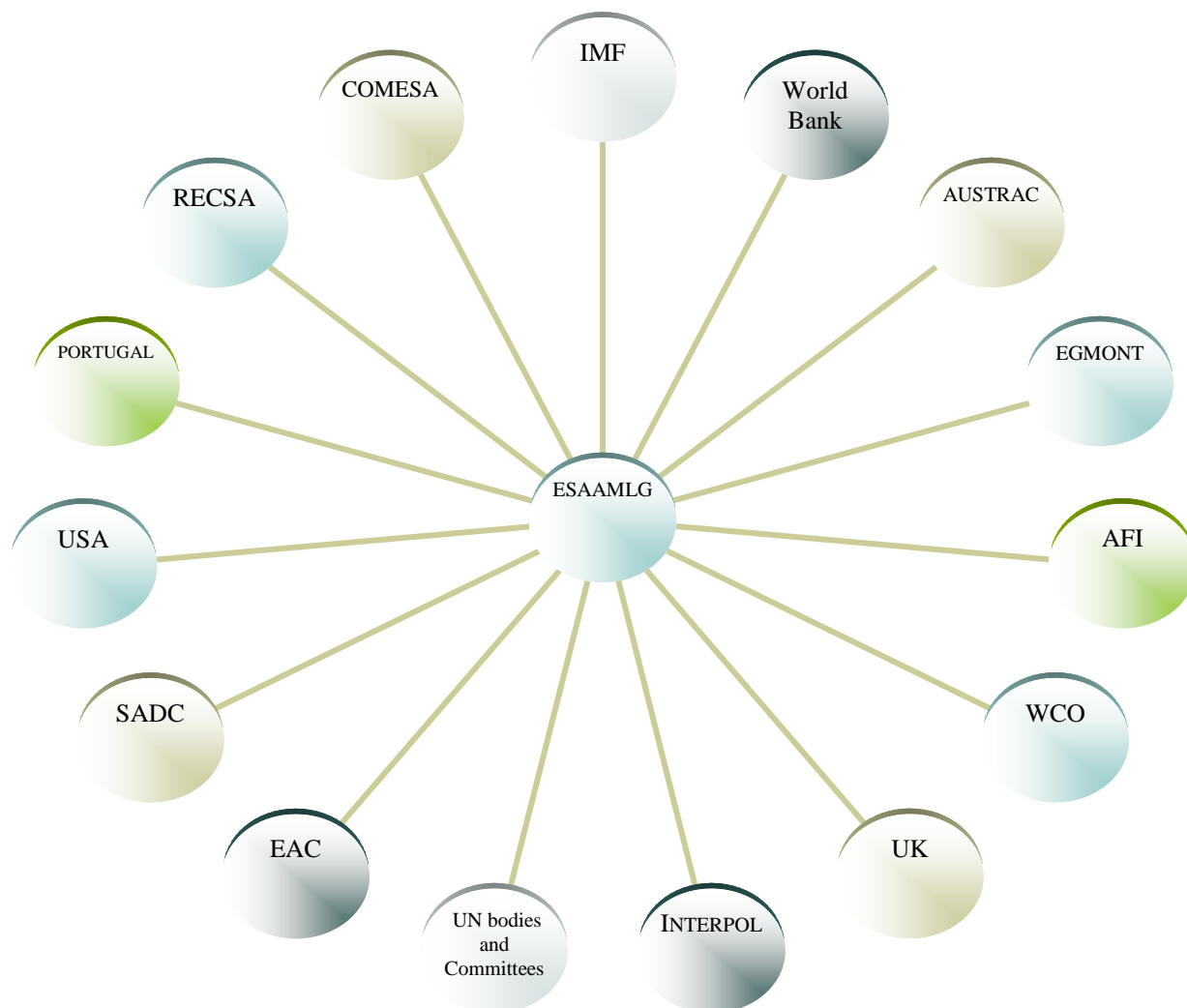
member countries and agencies is of critical importance. It is for this purpose that from its inception, ESAAMLG has been working very closely with the FATF and other FATF-Style Regional Bodies (FSRBs) in various areas such as development of the FATF Standards and coordination of training workshops, typology studies etc. In addition to this, ESAAMLG and FATF are involved in the joint evaluations of their common members.

The FATF and all FSRBs are observers in the ESAAMLG. The rest of the FSRBs are as follows:

APG	Asian and Pacific Group on Money Laundering, based in Sydney, Australia
CFATF	Caribbean Financial Action Task Force, based in Trinidad and Tobago
EAG	Eurasian Group, based in Moscow, Russian Federation
GAFISUD	South America Anti-Money Laundering Group, based in Buenos Aires, Argentina
GABAC	The Task Force on Money Laundering in Central Africa
GIABA	West Africa Anti- Money Laundering Group, based in Dakar, Senegal
MENAFATF	Middle East and North Africa Financial Action Task Force, based in Manama, Bahrain
MONEYVAL	Council of Europe Anti-Money Laundering Group, based in Strasbourg, France

Apart from the FSRBs, ESAAMLG also works closely with other jurisdictions and organisations which have keen interest in money laundering and terrorist financing matters. Fig. 2 below shows the current list of Cooperating Organisations and Supporting Nations (COSUNs) to the ESAAMLG.

Figure 2: Cooperating Organisations and Supporting Nations to ESAAMLG



1.4. Members and Observer Members

Membership of ESAAMLG is based on Article II of the Memorandum of Understanding (MoU) which stipulates that members are:

- a) Countries which subscribed to the MoU by signing it on 27 August 1999 or within six months thereafter, or
- b) Any country within the region whose application for membership has been approved by the Council.

Among other things, countries seeking membership must recognize the need to take action to combat money laundering and terrorist financing; commit themselves to establish and

implement AML/CFT legislation, financial intelligence units, national AML/CFT Committee; the need to cooperate with other states in this area. As at 31 March 2017, ESAAMLG had 18 members up from 17 after Madagascar's membership to the Group was approved by the Council of Ministers in September 2016.

Members

1. Angola
2. Botswana
3. Ethiopia
4. Kenya
5. Lesotho
6. Madagascar
7. Malawi
8. Mauritius
9. Mozambique

10. Namibia
11. Rwanda
12. Seychelles
13. South Africa
14. Swaziland
15. Tanzania
16. Uganda
17. Zambia
18. Zimbabwe

Observer Members

1. Burundi

COUNCIL OF MINISTERS AND TASK FORCE MEETINGS

In terms of the ESAAMLG Memorandum of Understanding, the Council of Ministers meeting shall be held at least once every year while the Task Force of Senior Officials shall meet at least twice a year. The main purpose of the Council meeting is to discuss the strategic direction of the Group and its work programme.

1.1 Key Outcomes of the 16th Council of Ministers' meeting

The Council of Ministers' meeting was preceded by the 32nd Task Force of Senior Officials meetings held from 28 August -1 September 2016. The senior officials deliberated on a number of issues and made recommendations to the Council of Ministers for approval/ adoption.

Some of the key outcomes of the Council meeting were as follows:

- Adopted the draft MER of Zimbabwe under the ESAAMLG 2nd Round of Mutual Evaluations Procedures and Follow-Up Process, and authorized its publication on the ESAAMLG website;
- Approved the request by Seychelles for ESAAMLG to carry out a mutual evaluation for the country;
- Approved the amendments to the ESAAMLG 2nd Round of Mutual Evaluations Schedule;
- Approved the establishment of Review Group D to be responsible for countries which are not making progress in implementing their post evaluation implementation plans;
- Approved the new/ revised Terms of Reference of the Evaluation and Compliance Group (ECG); Risk, Trends and Methods Group, Working Group on Risk, Compliance and Financial Inclusion and the FIU Forum;
- Directed the President of the Council to write to Rwanda informing the country that it had been given up to the 30th of November 2016 to settle its subscription arrears failure of which a Public Statement on Rwanda would be published on the ESAAMLG's website;
- Approved the application of Madagascar to become a full member of ESAAMLG;
- Approved the establishment of the Ad-hoc Contact Group on Burundi co-chaired by Uganda and Mauritius;

- Approved High Level Missions to Malawi and Lesotho to be undertaken by October 2016 and February 2017 respectively;
- Adopted the High Level Mission Report of Swaziland and urged Swaziland to implement the recommendations within the set timelines;
- Approved a new typologies project study on 'Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region' for the period September 2016 to August/September 2017;
- Approved the Work Programme of the Secretariat for the financial year 2017/18;
- Approved the extension of the mandate of the ESAAMLG Efficiency Scrutiny Working Group up to March/ April 2017 in order to enable the ESWG prepare cost implications of the proposed structure and directed the Task Force and the Secretariat to continue implementing the recommendations contained in the ESWG report;
- Approved the proposed amendments to the ESAAMLG MoU;
- Approved the audited financial statements for the financial year 2015/16 and the Management Letter;
- Approved a budget for the Financial Year 2017/2018 equivalent to the 2016/17 budget;
- Approved re-appointment of Innovex as the external auditors for the Financial Year 2016/17; and
- Endorsed the offer by the United Republic of Tanzania and Seychelles to host the Task Force and the Council of Ministers meetings in September 2017 and 2018, respectively.

2.2 33rd Task Force of Senior Officials Meeting, Arusha, Tanzania

The 33rd ESAAMLG Task Force of the Senior Officials Meeting was held at the Arusha International Conference Centre, Arusha, Tanzania on 01st – 7th April 2017. The Task Force Plenary was preceded by meetings of established Review Groups for Monitoring the Post Evaluation Implementation of the FATF Standards in ESAAMLG member countries, Expert Review Group (ERG) for preparation of the discussion and adoption of the AML/CFT Mutual Evaluation Report (MER) of Botswana, Legal Working Group and the Standing Working Groups, i.e. the Evaluation and Compliance Group, Risks, Trends and Methods Group, the Efficiency Scrutiny Working Group and Steering Committee, the Adhoc Outreach Group for

Burundi, the Finance and Audit Committee, the Technical Assistance Co-ordination Forum, the FIU Forum and the Working Group on Risks, Compliance and Financial Inclusion. The Groups prepared reports which were considered by the Plenary Meeting of the Task Force of Senior Officials.



Delegates attending the Task Force of Senior Officials Meeting at Arusha International Conference Centre (April 2017)

The Task Force meeting was chaired by Mr. Mirirai Chiremba of Zimbabwe. It was opened by Mr. Onesmo Makombe, Commissioner, Financial Intelligence Unit, Tanzania, on behalf of the Permanent Secretary, Ministry of Finance, Tanzania.

The Commissioner warmly welcomed all delegates to the 33rd Meeting of the Task Force of Senior Officials. He was pleased that all member countries were attending the meeting. He extended a warm welcome to the cooperating and supporting nations and organizations, indicating that ESAAMLG valued the support given to member countries. He indicated that their presence in the meeting was a demonstration of their commitment to continue working with member countries in the implementation of the Revised FATF Recommendations. He

indicated that their continued engagement with ESAAMLG would be of great benefit in providing support to combat the crimes of Money Laundering and Financing of Terrorism and Proliferation as well as other associated financial crimes in an effective manner.

The Commissioner also extended a warm welcome to the delegation of Madagascar which was attending the meeting for the first time as full members. He assured the delegation that member states would reach out to Madagascar and cooperate to enable the country to benefit from its ESAAMLG membership. He indicated that FIUs in the region, including Tanzania FIU are at different stages of negotiating MoUs with the FIU of Madagascar.

The Commissioner noted that ESAAMLG had continued the 2nd Round of Evaluations of all member countries' compliance with the FATF recommendations, and part of the business at the Task Force meeting was to discuss the Report of one of the member countries, Botswana which had been assessed by the ESAAMLG. He indicated that this would be the third report completed by ESAAMLG assessors. He congratulated Botswana, for completing this assessment and hoped that the discussion which would take place on the Report would assist other member countries to prepare well for their assessments.

He urged all member countries to prepare for the assessment going forward and to provide all the necessary support and assistance to the Secretariat and the Assessors to enable the Assessment Round to benefit all member countries through improvement of their AML/CFT regimes and in particular the effectiveness of the systems put in place in all member countries.

The Commissioner noted that the region remained very vulnerable to crime and the associated laundering of proceeds from criminal activities. Terrorism was also increasing. This made the mandate of the ESAAMLG to combat money laundering and financing of terrorism and proliferation an extremely important agenda for all member countries. In this context, he indicated that understanding the risks of money laundering and terrorism financing is critical in developing relevant AM/CFT regimes that meet the objectives of the ESAAMLG mandate. He further indicated that in the ESAAMLG region, there was still a need of having a lot of support in terms of capacity building to enable ESAAMLG members to comprehensively understand the risks faced by each country in order to develop appropriate policies, legal frameworks and institutions to address the risks they face individually and collectively as a region.

He was pleased to note that the work of ESAAMLG and the assessment of members countries' compliance with the international standards to combat money laundering and the financing of terrorism would put great emphasis on examining the risks of money laundering and terrorism financing obtaining in the region and how the systems developed for combating these crimes were informed by assessment of those risks.

He indicated that assessment of risks for money laundering and financing of terrorism was a complex task requiring government institutions and the private sector to put in place resources and time to do a good job. He thanked most technical assistance providers for the support they were providing to various jurisdictions in this area of work and urged them to continue doing so.

The Commissioner urged ESAAMLG countries to sustain their political commitment to support ESAAMLG. He was pleased to see that Tanzania also committed to continue supporting the activities of ESAAMLG apart from striving to implement AML/CFT programmes that would increasingly move Tanzania towards compliance with the challenging international standards. He felt honoured by member countries for hosting the Secretariat and he pledged to continue supporting it to provide valuable service meeting future needs of all member countries. He also indicated that Tanzania would continue to play its part in sustaining the spirit and effectively participating in the efforts by ESAAMLG to monitor implementation of the FATF recommendations.

In his concluding remarks, the Commissioner commended the Task Force for its dedication and the good work of developing policies and programmes that would enable the region to comply with the International Standards for combating money laundering and financing of terrorism and proliferation and wished ESAAMLG a successful programme of assessing compliance of all member countries under the Second Round of Assessments.



Mr. Onesmo Makombe, Commissioner, Financial Intelligence Unit, Tanzania opening the Task Force Meeting in Arusha, 2017

PERFORMANCE HIGHLIGHTS OF THE YEAR

Strategic Objective No. 1

Effective Post Evaluation Implementation of AML/CFT measures in member countries

Post Evaluation Monitoring Process

During the period under review, the Task Force (through the Evaluation and Compliance Group) considered progress reports of 11 countries, namely, Ethiopia, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, South Africa, Swaziland, Uganda, Zambia and Zimbabwe and the High Level Mission Progress Reports of Swaziland and Zambia.

The Task Force received the High Level Mission Reports of both Lesotho and Malawi. This follows the decision of the Council in September 2017 that the ESAAMLG High Level Mission be undertaken for both countries by October 2016 and February 2017 respectively to discuss the difficulties which the countries were facing and agree on an Action Plan to enable the countries to make rapid and desired progress in implementing their PEIPs.

In view of lack of sufficient progress by Mozambique in implementing its Post Evaluation Implementation Plan, the Task Force agreed that a letter be written to the authorities of Mozambique and that Mozambique be given up to the 31st of July 2017 to address the deficiencies in SR. III and other outstanding recommendations, failure of which a High Level Mission would be sent to Mozambique before the next Council of Ministers' Meeting, in September 2017, to explore with the authorities the challenges which Mozambique was facing in implementing its PEIP and making the desired progress and what ESAAMLG can do to assist Mozambique make rapid progress.

The Task Force also urged South Africa to ensure the Financial Intelligence Centre (Amendment) Bill was passed by Parliament and to report progress on identified areas at the

September 2017 meeting. It noted the decision of the FATF to issue a public statement if South Africa did not make progress (with respect to the laws which were awaiting Presidential assent) by June 2017.

The Task Force noted the establishment of Review Group D responsible for countries under the FATF ICRG Process. This Group will be comprised of reviewing experts from countries having previously undergone an FATF/ICRG process, namely, Angola, Kenya, Namibia, Tanzania, and Zimbabwe. South Africa volunteered to assist. It was resolved that Ethiopia and Uganda would be reviewed in this Group.

Publication of Progress Reports

The Task Force discussed the publication of member countries' progress reports on ESAAMLG's website. It noted with concern that the decision of the Council in Victoria Falls requiring member countries to send their completed post evaluation progress reports to the Reviewers (through the Secretariat) by the 12th September 2016 and thereafter publish the reports on the ESAAMLG website was not implemented by majority of the member countries. It adopted a proposal to have member countries and Reviewers agree on the summary of the progress reports for publication on the ESAAMLG website before the end of each review meeting. Where a member country did not discuss the review report for purposes of agreeing on the summary to be published, the Secretariat would publish the report presented to the ECG by the Review Group.

Strategic Objective No. 3

Increasing and sustaining the knowledge of money laundering and terrorist financing trends and techniques in the region in order to effectively contribute to regional and international AML/CFT policy formulation

Since its inception, ESAAMLG has been carrying out a number of Typology studies which allow for the sharing of information collated by various bodies involved in the fight against money laundering, with the aim of increasing awareness of the ML/TF risks to the region. Based on a better understanding of the money laundering and terrorist financing risks, countries will be able to adopt and implement appropriate measures against money laundering and terrorist financing.

Special Typologies Project on “*Poaching, Illegal Trade in Wildlife and Wildlife Products and Associated Money Laundering in the ESAAMLG Region*”

At its meeting in Johannesburg in September 2015, the Council approved the *„Poaching, Illegal Trade in Wildlife and Wildlife Products and Associated Money Laundering in the ESAAMLG Region”* special typologies project report, subject to gathering of the information on financial flows and approved appointment of a consultant and approved the request for extending completion time of the project to December 2015. The Secretariat and the Project Team finalized the report and after Council approval through a round robin process, the Secretariat published the report on the ESAAMLG website in July 2016.

Typologies project study on “*Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region*”

At the Task Force meeting in Arusha in March 2015, ESAAMLG considered a proposal made by Zimbabwe to prepare a draft Concept Note and Questionnaire on the next typologies project study relating to *Smuggling and Associated Money Laundering in the ESAAMLG Region*. During the September 2015 Council and Task Force meetings, the concept note was considered and was found to be too general. The Council advised the Task Force to refine the Concept Note taking into account previous studies conducted by the ESAAMLG on smuggling. Following this guidance, the Project Team collected information from member countries on the top five

consumer goods which are problematic in each jurisdiction and prepared a report and revised the Concept Note. In September 2016, the Task Force recommended and the Council approved the revised typologies project on *“Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region”* for the period September 2016 to August/September 2017. The overall objective of the study is to examine the magnitude of smuggling activities involving cigarettes in the ESAAMLG region and identify linkages with ML/TF as well as actual activities that are being funded by proceeds of the predicate offence.

At the Arusha Meeting in April 2017, the Task Force noted the progress made on the typology project. It authorized the Project Team to engage the private sector in order to broaden the scope of information and close some of the gaps which had been identified regarding statistics and other relevant information as well as to seek clarity on specific areas where inconsistencies had been identified. It also noted that the Project Team would start working on the draft report electronically and meet in June 2017 to finalise the report. The Final Draft Report would be considered for adoption during the September 2017 Task Force and Council meetings.

Proposed typologies project on *“Procurement Corruption in the Public Sector and Associated Money Laundering in the ESAAMLG Region”*

During the April 2017 Task Force meeting in Arusha, Tanzania, Zambia proposed the next typology project on *“Procurement corruption in the public sector and associated money laundering in the ESAAMLG region”*. It was agreed that Zambia would prepare and present a Concept Note on the proposed project at the next meeting in September 2017.

Strategic Objective No. 4

Expansion of ESAAMLG membership

In line with the Council of Ministers' decision in 2007, ESAAMLG developed an Outreach Programme for non-member countries in the region to join the ESAAMLG. The ESAAMLG recognizes that money laundering and terrorist financing and proliferation crimes are transnational problems which require unified and concerted efforts by all countries in the region to deal with. During the period under review, the ESAAMLG continued its outreach programme to Burundi, Democratic Republic of Congo, Madagascar and Rwanda.

Rwanda

At its meeting in Luanda, Angola in September 2014, the Council considered and adopted the application by Rwanda for full membership of ESAAMLG. The approval was subject to payment of initial annual subscription as required under the ESAAMLG MoU. However, at its meetings in Johannesburg, South Africa and in Victoria Falls, Zimbabwe held in August 2015 and September 2016 respectively, the Council of Ministers noted with serious concern that despite several reminders, Rwanda had not yet paid the initial subscription. As a result of Rwanda's failure to activate its membership, ESAAMLG had not yet published Rwanda's Mutual Evaluation Report which was adopted by the Council in 2014 in line with ESAAMLG's Mutual Evaluation Procedures. In view of this, the Council agreed to give Rwanda up to 30th of November 2016 to settle its subscription arrears, failure of which a Public Statement on Rwanda would immediately be published on the ESAAMLG's website.

At its meeting in April 2017, the Task Force noted that the public statement was not processed as Rwanda had started settling the outstanding by paying its initial subscription fee and that the Secretariat had published Rwanda's Mutual Evaluation Report on the ESAAMLG website in November 2016.

Republic of Madagascar

The Council approved the applications for observer status of Madagascar at its August 2014 meeting in Luanda. The Council directed the Secretariat to invite Madagascar to attend the ESAAMLG meetings as an observer. In November 2015 the Task Force undertook a High-Level Mission to ascertain high-level political commitment and implementation of AML/CFT system in Madagascar in line with the ESAAMLG MoU. The Task Force considered and approved the Mission Report for Madagascar in April 2016 and directed Madagascar to make a formal application for full membership before end of May 2016. In view of the country's high level political commitment and the progress it had made as outlined in the Mission report, the Council approved Madagascar's application for full membership during its meeting held in September 2016.



Delegates from Madagascar listen attentively to the proceedings of the Task Force Meeting in Arusha, April 2017

Republic of Burundi

Burundi was admitted as an observer member during the Council meeting held in August 2014 in Luanda, Angola. Since becoming an observer member, Burundi failed to attend

ESAAMLG meetings to enable the membership to determine the extent to which Burundi was preparing to meet the membership requirements as directed by the Council. The Task Force noted with concern that Burundi started attending ESAAMLG meetings in April 2016 at which Co-Chairs were selected to set-up an Outreach Group for Burundi. In September 2016 the Outreach Group comprising Uganda and Mauritius (as co-Chairs), Kenya, Malawi, Zambia and Lesotho was formally constituted to work closely with Burundi and report to the Task Force on the progress made towards fulfilling the membership requirements. At the September 2016 meeting, Burundi was requested to submit relevant AML/CFT laws for review by the Outreach Group, to undertake benchmarking visit to the FIUs in the region to enable Burundi to learn how to operationalize its FIU and to reach out to either the World Bank or the IMF to conduct an assessment of the country's AML/CFT system and the report to be submitted to the ESAAMLG as per the procedures. In April 2017, Burundi had not implemented any of the above action items and the Task Force urged Burundi to submit progress on the above at its meeting in September 2017.

Democratic Republic of Congo

During the Task Force meetings in August 2015 in Johannesburg, the Secretariat was encouraged to continue engaging with the DRC. At its meeting in April 2016 in Arusha, the Task Force received a formal application by DRC to become an observer member. The Task Force also noted that officials from the DRC had attended the Task Force meeting as special guests. At its meeting in September 2016, the Council directed the Task Force to continue engaging with DRC on its application for ESAAMLG membership and in particular, to seek clarity on how the country intended to manage its dual membership to two FSRBs, namely ESAAMLG and GABAC. During the Arusha Task Force meeting in April 2017, the Task Force noted that the DRC had submitted another application for observer status given that it had already been admitted as a full member of GABAC. The application would be considered by the Council in September 2017.

Strategic Objective No. 5

Strengthening regional and international cooperation among member countries

ESAAMLG Secretariat and some member countries participated in the following meetings:

- Regular FATF plenary meetings held in Busan in June 2016 and in Paris in October 2016 and February 2017.
- FATF Africa and Middle East Regional Review Group Meetings (AME RRG) held in Pretoria and Rome to review the progress of the jurisdictions under the monitoring process.

Apart from its involvement in FATF activities, ESAAMLG also continuously follows up on developments in the area of combating money laundering and terrorism financing by attending meetings, conferences, seminars and workshops at both regional and international level.

Cooperation with the East African Community (EAC) and the Southern African Development Community (SADC) Secretariats in the Implementation of AML/CFT Programmes

ESAAMLG, as a specialized organisation in AML/CFT matters, is also keen to cooperate with regional bodies which have an interest in AML/CFT matters. In this regard, ESAAMLG signed Memoranda of Understanding (MoUs) with the East Africa Community (EAC) and the Southern African Development Community (SADC) in February 2012 and August 2013, respectively. The MoUs provide an excellent opportunity to promote ESAAMLG's work and also form a platform for collaboration, cooperation, exchange of information and technical assistance. The ultimate outcome of this working relationship will be an improved implementation of international standards on anti-money laundering and combating terrorist financing by member countries which are also members to either SADC or EAC.

Work in developing cooperation with the two Secretariats to implement the MoUs is ongoing. The Task Force, during its meeting in April 2017, noted the progress in the development of the Work Programmes with the two Secretariats in the implementation of AML/CFT programmes. It directed the Secretariat to continue working with the two Secretariats. The Secretariat had continued working with the two Secretariats. In collaboration with the SADC Secretariat, it

facilitated AML/CFT training workshop for AML/CFT supervisors in Pretoria from 20-22 September 2016.

With respect to the East African Community, consultations had been held with the Peace and Security Department of the EAC Secretariat to develop joint programmes to address terrorism and in particular the financing of terrorism. Consultations had also taken place with the Deputy Secretary General responsible for the Monetary Union Project to explore areas where cooperation can be developed in the implementation of AML/CFT programmes.

FIU Developments in the ESAAMLG Region

In a bid to enhance cooperation amongst Financial Intelligence Units (FIUs) within ESAAMLG, members agreed to form an FIU Forum during the Task Force of Senior Officials meeting held in Zanzibar in April 2011. The primary aim of the Forum is to promote cooperation and provide a platform for information exchange amongst FIUs of ESAAMLG member countries.

The 12th FIU Forum was held on the 4th of April 2017 in Arusha and attended by representatives from 16 member countries. The representatives of Democratic Republic of Congo, COMESA and USA attended as observers.

Nine (9) member FIUs submitted in writing to the Forum on the developments made relating to their Egmont Group membership since the Forum's meeting in April 2016. It was noted that seven (7) ESAAMLG countries were members of the EGMONT Group (i.e. Angola, Namibia, Malawi, Mauritius, Seychelles, South Africa and Tanzania) and that the other countries were at different stages of their membership process. Botswana, Ethiopia, Kenya and Zambia have applied for Egmont Group membership.

The Task Force further noted that although Malawi was the current Egmont Group Regional Representative, its tenure would be ending in July 2017. In view of this it was decided that the Egmont Regional Representative position should be rotated amongst the ESAAMLG Egmont FIUs to share responsibility and familiarise themselves with Egmont related activities and that the rotation would be in accordance with the seniority of their Egmont membership. It was therefore resolved that South Africa would take over as the Egmont Regional Representative in

July 2017 from Malawi followed by Seychelles in accordance with the Egmont Rules and Procedures.

At the 10th FIU Forum Meeting in Arusha, Tanzania in April 2016, it was resolved that each FIU should be submitting a report using a template developed by the Secretariat. Based on the approved Template, non-Egmont FIUs were expected to submit their reports biannually while the Egmont FIUs would submit annually during the August/September Task Force meetings. During the Task Force meeting in April 2017, it was further agreed that starting from the FIU Forum Meeting in August/September 2017, four (4) FIUs (selected alphabetically) would make a presentation at each Forum meeting on their status in the implementation of the recommendations of the Report on Principles and Best Practices for Safeguarding and Protection of FIU Information, which was approved by the Council of Ministers in August 2015. It was also agreed that an opportunity would be given to the FIUs that have boards to make presentations on their experiences and/or challenges and how they have resolved/addressed the challenges. The FIU Forum also approved the Forum's Chairpersonship rotation timelines.

Developments in the FATF

During the year under review, the Secretariat continued to participate in the International Cooperation Review Group's (ICRG) work of reviewing jurisdictions that had been identified as posing money laundering and terrorist financing risks to the global financial system. The Secretariat facilitated and attended the Africa and Middle East Regional Review Group Meetings (RRG) held in Pretoria, South Africa and in Rome, Italy.

The Council noted, during its 2016 Victoria Falls meeting, that two member countries of the ESAAMLG, namely, Ethiopia and Uganda were being monitored by the FATF under the International Cooperation Review Group (ICRG).

Both Uganda and Ethiopia continued to report good progress in implementing the agreed Action Plans with the FATF to address strategic deficiencies identified in their AML/CFT regimes. In February 2015, the FATF undertook a Terrorist Financing Fact Finding Initiative (TFFFI) to determine the extent to which countries were implementing global standards relating

to TF including the power to implement UN Security Council Resolutions on targeted financial sanctions (UNSCRs 1267/1373). Four ESAAMLG member countries, namely; Lesotho, Malawi, Swaziland and Zambia, were identified as having serious deficiencies and as such were put under the FATF follow-up process and were requested to report progress at each FATF Plenary meeting.

In April 2017, the Task Force noted that Swaziland and Zambia, had issued Regulations to implement UNSCRs 1267 and 1373 which were deemed compliant and therefore were no longer being monitored by the FATF. It further noted that Malawi and Lesotho were in the process of drafting Regulations to implement UNSCRs 1267 and 1373 which would be considered at the June 2017 FATF meeting.

Strategic Objective No. 7

Prioritizing and consolidating regional AML/CFT capacity building, training and awareness raising programmes

The continuous delivery of Technical Assistance and Training Programmes is of critical importance towards strengthening the national and regional capacity to address deficiencies in the AML/CFT regimes as identified in the Mutual Evaluation and Follow-Up Reports or to comply with new international AML/CFT Standards and UN Conventions or UN Special Council Resolutions. In order to facilitate this, ESAAMLG established a Technical Assistance and Training Coordination Forum, which among other things, brings together member countries that need technical assistance, and cooperating and supporting nations and organisations that provide technical assistance. This Forum provides a useful gateway for the two sides to engage each other with respect to the delivery of appropriate technical assistance and training- both country specific and regional training programmes.

The Secretariat in collaboration with member countries and donors continued to look at areas which require technical assistance and training to ESAAMLG member countries.

At its meeting held in September 2013, the Council approved seven common areas of training, namely, implementation of revised FATF Standards, National Risk Assessment, Effective Implementation of UNSCRs, Supervisory Capacity, Financial Investigations including Asset Forfeiture, Judiciary and FIU Analytical Capacity.

The Secretariat has managed to organize workshops in three of the prioritized areas, namely; training on the Revised FATF Standards, UN Security Council Resolutions (UNSCRs (SRIII) and on ML/TF Risk Assessment and Risk Based Approach. The Secretariat is liaising with technical assistance providers in delivering training on the two remaining priority areas on Asset Forfeiture, focusing on institutional frameworks and on AML/CFT training for Magistrates and Judges. The workshop on Asset Forfeiture and Beneficial Ownership did not take place as scheduled due to unavailability of the resource person to facilitate the workshop.

Furthermore, training for law enforcement agencies on TF investigations was not undertaken due to the demands of the second Round of Mutual Evaluations.

With regards to training for FIU Analysts, the Task Force noted, during its meeting in April 2017, that funds could not be secured to meet the costs for organizing training for FIU Analysts of ESAAMLG member countries that do not belong to COMESA. It was also noted during the same meeting that whereas some countries have completed their National Risk Assessments, others were at varying levels of conducting their NRAs.

Assessors Training for 2nd Round of Mutual Evaluations

The Financial Action Task Force (FATF), based on lessons learnt from previously conducted AML/CFT mutual evaluations by the FATF Styled Regional Bodies (FSRBs) which includes ESAAMLG and International Financial Institutions (IFIs), decided to revise and improve the old standards. The FATF came up with a revised set of standards which combined the 40 Recommendations on ML and 9 Special Recommendations on TF into 40 Recommendations which were issued in February 2012. The changes to the Recommendations also necessitated revision of the 2004 FATF Methodology. In February 2013 the FATF issued the new Methodology for Assessing Technical Compliance with the FATF Recommendations and Effectiveness of AML/CFT Systems. Furthermore, following the revision of the Standards and the Methodology, the FATF came up with revised mutual evaluation procedures.

The adoption of the revised FATF Standards, the new Methodology and revised mutual evaluation procedures have necessitated training of assessors and countries to take into account the new requirements. It is for this purpose that ESAAMLG Secretariat conducted an Assessors Training Workshop in Johannesburg, South Africa in February 2017. A Refresher Training workshop for the authorities of Mauritius and Seychelles took place on 08 April 2017 in Arusha soon after the Task Force meeting and for the assessors from 17th -21st April 2017 in Busan, South Korea.

The trainings were based on the revised FATF Standards, Assessment Methodology and the Mutual Evaluation Procedures.

Other Workshops

1. GIZ carried out two training sessions in 2016 on asset tracing and forfeiture for East Africa. They will be conducting another training in July 2017 through Tax Crime Academy with Kenya and members of ESAAMLG will be invited.
2. IMF has conducted three workshops on risk-based supervision. Two of which were for East African countries and one for Southern Africa.

Strategic Objective No. 8

Promoting the Implementation of AML/CFT measures and financial inclusion

At its meeting in September 2011 in Mauritius, the Council of Ministers considered and approved the proposals for a three year work programme to promote Financial Inclusion and Implementation of FATF Standards in the ESAAMLG Region. The Council also approved the setting up of an Ad-Hoc Working Group to address the challenges of balancing financial integrity and financial inclusion within the ESAAMLG Region. Its mandate was expanded by the Task Force during its meeting in Johannesburg in August 2015 to also cover risk and compliance areas in order to promote a reasonable balance between implementation of the FATF Standards and promotion of access to financial services. In view of this, the Task Force agreed to make the Ad-hoc Group a permanent structure of the ESAAMLG under the name “Working Group on Risk, Compliance and Financial Inclusion”. The Council approved the recommendation and authorized the Task Force to finalize the new terms of reference of the proposed Working Group and Work Programme at its April 2016 meeting.

During its April 2016 meeting in Arusha, the Task Force considered and approved the new Terms of Reference and the three-year Work Programme of the Working Group. The Task Force also elected new co-Chairs from Kenya and Zimbabwe for the Working Group.

In order to ensure that the Working Group covers issues which are of benefit to all members, the Task Force approved the proposal to undertake a stock-taking exercise with a view to identify issues relating to AML/CFT supervision, risk and compliance which should be addressed by the Working Group.

Third ESAAMLG Public Private Sector Dialogue (PPSD)

From 2nd – 3rd September 2016 the Working Group coordinated the 3rd ESAAMLG Public/Private Sector Dialogue held in Victoria Falls, Zimbabwe. The Dialogue, which was launched by the incoming President of the ESAAMLG Council of Ministers, Hon. Patrick Chinamasa, Minister of Finance and Economic Development of Zimbabwe, was attended by Finance Ministers from

the ESAAMLG Region, the FATF Executive Secretary, participants drawn from public and private sectors and representatives from the Cooperating Organizations and Supporting Nations and (COSUNS) and the West African Anti-Money Laundering Group (GIABA).



PPSD in progress. Mr. Robert Norfolk-Whittaker (HM Treasury) making a presentation on de-risking while Dr. K. Mlambo, Deputy Governor, Reserve Bank of Zimbabwe (3rd from right) is moderating

The Dialogue covered a range of topics including De-risking in the ESAAMLG Region; Financial Inclusion Data Indicators and Measurements; Digital Financial Services; and Illicit Financial Flows. Its main objective was to address the challenges faced by the financial sector in addressing the growing phenomenon of de-risking and continuing to promote financial inclusion without compromising the integrity of the implementation of the FATF recommendations. The PPSD was designed to help facilitate the development and implementation of robust anti-money laundering and combating the financing of terrorism (AML/CFT) regimes in Sub-Saharan Africa. It offered a unique opportunity to engage with key policy officials and business stakeholders in emerging African markets, which represent seven of the ten fastest growing economies in the world. It also aimed at raising awareness about, and commitment to, robust AML/CFT regimes as a necessary foundation for sustainable economic growth in Africa in addition to exchanging good practices and other technical knowledge on

implementation of effective AML/CFT regimes, including in the face of commonly occurring challenges in Sub-Saharan Africa. The PPSD provided an unparalleled opportunity to develop a deeper understanding about the benefits of maintaining secure and transparent financial systems and combating illicit financial flows, gain a deeper technical grasp of implementation of robust AML/CFT regimes, and establish new relationships throughout the continent and across the globe.



Some delegates from the private sector paying more attention during PPSD break-away sessions in Victoria Falls, Sept 2016

During the dialogue, there was a general consensus that de-risking is a market failure and that there was an immediate need to comprehensively address de-risking within the ESAAMLG region. It was also noted that in order to promote proportionate application of AML/CFT standards in the regulation and supervision of reporting institutions, supervisors should consider pursuing a risk-based approach in carrying out their own supervisory activities and likewise ensure that the institutions they supervise have systems in place to assess and respond to the relative risk of their clients, products and services. With regards to digital financial inclusion, it was further noted that there was need to ensure that policy and regulation is enhanced to encourage the use of mobile technologies in well-regulated markets as a means of promoting financial inclusion and reducing cash based transactions.



Elephant in the house - Public and Private sector representatives from ESAAMLG member countries searching for a solution to de-risking (Victoria Falls, Sept 2016)

ESAAMLG De-risking Project

In view of the adverse consequences and pursuant to the Dialogue outcomes, the Council approved that a survey on de-risking focusing on ESAAMLG member countries be conducted in line with the approved Work Programme. According to the initial Work Programme, the survey was to be conducted between January and December 2017. However, members expressed a view that the study was highly urgent and agreed to form a sub-committee to fast-track the survey. A sub-committee comprising five (5) member countries i.e. South Africa, Angola, Zambia, Zimbabwe and Seychelles was established to spearhead the exercise. As part of its mandate, the sub-committee was tasked to: Coordinate the survey; Develop survey tools; and Prepare a draft report by December 2016. The survey, intended to target all financial sector authorities and players including banking, insurance, securities, co-operative societies, MVTs and forex bureaus, had as its main objective, to examine the existence, extent, drivers and effects of de-risking within ESAAMLG member countries and to assess its impact on financial inclusion.

During the Task Force meeting in April 2017, it was noted that the sub-committee had developed and finalized the survey questionnaire which was also circulated to the member countries for completion in November 2016. All the member countries responded to the questionnaire and a total of 633 completed responses were received. It was also noted that due to changes in its delegation, South Africa was no longer chairing the Sub-Committee and as such The Task Force nominated Angola and Seychelles to co-chair the sub-committee with Zambia as Secretary.

In view of the foregoing and due to the delays by most member countries in submitting their responses, the Task Force approved extension of the timelines for completion of the survey to allow for data analysis and preparation of the report. The extension would allow the Sub-Committee to submit the final report for discussion and consideration by the Task Force during its next meeting in August/September 2017.

Regional Workshops on Risk-Based Approach to Supervision

In line with the objectives of the Working Group on Capacity Building Programmes on Risk Based AML/CFT Supervision as per the approved three year work programme (2016/2018), the Task Force, during its meeting in April 2016, approved the Working Group to facilitate three regional capacity building workshops on the implementation of the risk-based approach and proportionality for AML/CFT supervisors responsible for the financial sub-sectors namely:- Insurance and Securities sectors; Money Value Transfer Service Providers and Bureau De Change; and Mobile Money Service Providers. Two workshops were scheduled for May and November 2017. However, due to lack of funding for the workshops, the Task Force, during its April 2017 meeting in Arusha, approved that the timelines for the two workshops be re-scheduled to November 2017 and early 2018 respectively and that other options be explored like undertaking the workshops on the side lines of the Task Force meetings. The Task Force also approved the proposal for a stocktaking exercise on member countries to establish the existing expertise in the region that can facilitate the two workshops for the non-banking financial sector supervisors.

Presentations on Experiences, Challenges and best Practices in Undertaking a National Risk Assessment (NRA) and how it Promotes the Financial Inclusion Agenda

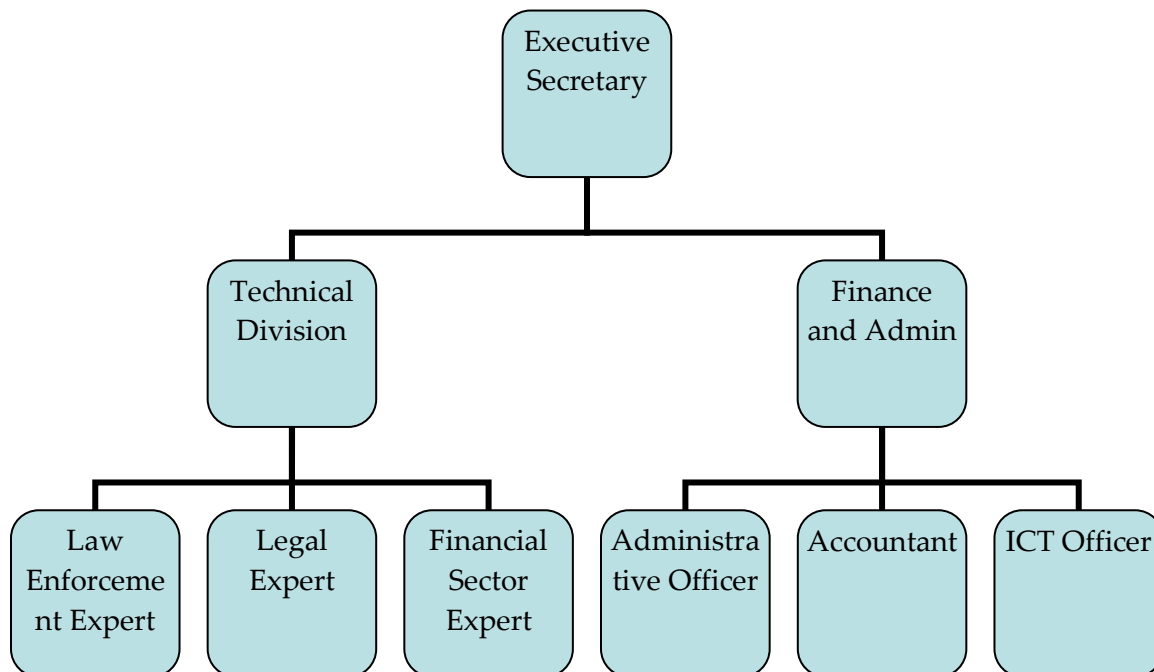
The application of a risk-based approach under the FATF standards requires countries, as a first step, to identify, assess, understand and mitigate their ML/TF risks through conducting a national risk assessment. This includes supervisors or other authorities assessing specific risks relevant to their sectors as well as financial institutions identifying the ML/TF risks for different market segments, customers, products and services.

In this regard the Task Force, during its April 2016 meeting in Arusha, approved the proposal that member countries that had completed their national risk assessments be required to make presentations and share with the Group their experiences, challenges, best practices in undertaking their national risk assessments and how the NRAs feed in the Financial Inclusion agenda. In view of this, Malawi made a presentation in September 2016 in Victoria Falls while Zambia and Zimbabwe made separate presentations during the April 2017 Task Force meetings. Ethiopia and Uganda are expected to make similar presentations during the August/September 2017 Task Force meeting.

Strategic Objective No. 9

Consolidating the Sustainability and Efficiency of the Secretariat

The ESAAMLG Secretariat is based in Dar es Salaam, United Republic of Tanzania and is hosted by the Tanzanian Government through the Ministry of Finance. As at 31st of March 2017, the staffing of the Secretariat was as follows:



Secretariat Responsibilities

The main responsibilities of the Secretariat are as follows:

- Organise and conduct the Task Force of Senior Officials and Council of Ministers' meetings;
- Provide technical and administrative support to the Council of Ministers, Task Force of Senior Officials and Working Groups;
- Prepare and implement annual budgets, strategic plans and work programmes;
- Coordinate and participate in mutual evaluations;

- Identify training and technical assistance needs of member countries, and facilitate provision thereof;
- Establish and maintain working relationships with relevant regional and international organisations;
- Act as a liaison between ESAAMLG and third party countries and organisations involved in countering money laundering and terrorist financing;
- Provide expertise to member countries to build capacity to combat money laundering and terrorist financing;
- Arrange and conduct outreach missions to potential members.



On the left, Secretariat staff assisting delegates during the registration process in Arusha (2017)

Efficiency Scrutiny of ESAAMLG

In September 2014, the Council of Ministers approved a proposal to undertake an Efficiency Scrutiny of ESAAMLG to determine among other things, whether the organization was adequately resourced to implement the Revised FATF Recommendations, carry out the Second Round of Mutual Evaluations and participate effectively in the Global AML/CFT network of the

FATF. The Efficiency Scrutiny Working Group was constituted with members from: South Africa (Co-Chair), Swaziland (Co-Chair), Malawi, Angola, Kenya, Botswana, FATF and ESAAMLG Secretariats, was tasked to perform this function.

The Efficiency Scrutiny Working Group's final report was presented and approved by the Council during its Johannesburg meeting in August 2015. It further approved the extension of the mandate of the Efficiency Scrutiny Working Group for one year to develop an Implementation Plan which include developing a costed programme for implementing the recommendations of the Report and submit a report at the Council meeting in September 2016.

During the April 2017 meetings in Arusha, the Task Force received a Report by the Efficiency Scrutiny Working Group and noted that following the Council meeting in September 2016, the Efficiency Scrutiny Working Group (ESWG) had its mandate further extended for six months to April 2017 to finalise its work and hand over the outstanding issues and monitoring of the implementation of its Recommendations to the Steering Committee for follow up actions. It was also noted that ESAAMLG had engaged an HR Consultant to review the proposed ESAAMLG staff structure, work out its financial implications and make recommendations. In order to come up with appropriate recommendations, the consultant carried out his work in accordance with the agreed Terms of Reference (ToRs) and prepared reports in relation to Job Grading, salary differentiation and budgeting, Job Descriptions, Performance Appraisal System; Revised Terms and Conditions of Service and Revised Staff Scheme of Service and Regulations Manual; Terms of Reference for Off-site Expert Staff, and Performance Audit.

The Task Force noted that the ESWG had been working with the Consultant and the Secretariat to produce a costed implementation plan for proposed staff structure and it adopted the recommendations of the ESWG. Member countries were requested to study the options presented by the ESWG and the Secretariat in preparations for further discussions in September 2017 Task Force meeting before recommending for approval by the Council at the same meeting. During the April 2017 Task Force meeting, the Steering Committee held its first meeting with a view to review its Terms of Reference and that of its Sub-Committees. The Steering Committee would commence its meetings, and provide reports to the Task Force as required starting from the September 2017 meeting.

PRIORITIES FOR THE YEAR AHEAD

The future activities will be guided by the ESAAMLG Fourth Three Years Strategic Plan (April 2017 – March 2020). The Work Programme will build on and is intended to sustain the achievements that ESAAMLG has made in the implementation of the Group's Third Three Years Strategic Plan 2012/15 approved by the Council of Ministers in August 2012. The undertaking of the Efficiency Scrutiny exercise necessitated the extension of the period for the 2012/15 Strategic Plan for a further year to enable the results and the recommendations of the exercise to be incorporated in the fourth three years strategic plan developed by the Secretariat in consultation with the Efficiency Scrutiny Working Group (ESWG) following the adoption and approval of the recommendations of the ESWG by the Council of Ministers in August 2015.

The approved Work Programme will form the operating framework for next year which will include the following key tasks:

Governance/ Meetings

- The 17th Council of Ministers and 34th Task Force of Senior Officials meetings are expected to be held in August/ September 2017, in Zanzibar, Tanzania.

Outreach Missions

- It is anticipated that the Task Force of Senior Officials and ESAAMLG Secretariat will send a High-Level Mission to Mozambique in August 2017 to raise its concerns to the authorities on lack of sufficient progress by Mozambique in implementing its Post Evaluation Implementation Plan (PEIP) and to discuss the difficulties which Mozambique is facing and agree on an Action Plan to enable the country to make rapid and the desired progress in implementing its PEIP.
- The Group will also continue engaging other countries on the list of its outreach programme, namely; Burundi and DRC.

Technical Assistance and Training

- Asset Forfeiture and Beneficial Ownership Training - Training on asset forfeiture and beneficial ownership was re-scheduled to be held as soon as the resource person to facilitate the workshop is available during the course of the year.
- Regional training for Law Enforcement Agencies (LEAs) on investigations related to TF is also scheduled to be held during the year.
- Facilitating a workshop on Risk-Based Approach to Supervision for the non-banking sectors.

Mutual Evaluation

- ESAAMLG will conduct the Second Round of Mutual Evaluations for Mauritius scheduled for the 5th –16th of June 2017, Seychelles scheduled for 20th November – 1st December 2017 and finalise the Mutual Evaluation Report for Madagascar conducted by the World Bank in February 2017.
- There will also be a Pre-Evaluation Workshop for Zambia scheduled for 2nd – 4th August 2017 to prepare it for its mutual evaluation commencing in October 2017.

Post Evaluation Monitoring of Compliance with FATF Standards

- ESAAMLG will continue implementing the post evaluation monitoring of its members, including analysis of progress, in accordance with the Mutual Evaluation Procedures.

Typologies Research and Surveys

- Finalising the Typologies project on *“Smuggling of Cigarettes and Associated Money Laundering in the ESAAMLG Region”*;
- Finalising the survey project on *“De-risking in the ESAAMLG Region”*; and
- Consideration of a new project on: *“Procurement corruption in the public sector and associated money laundering in the ESAAMLG region”*.

The FATF ICRG Process

- Providing assistance to all members who are currently undergoing FATF ICRG review and those under the Terrorist Financing Fact Finding Initiative (TFFFI) process. That is, those countries which were found to be having serious deficiencies in implementing UNSCRs

1267 and 1373. For this reason, ESAAMLG would like to undertake a number of TA&T initiatives to ensure that concerned member countries receive guidance on the ICRG process, assisting them to develop their action plans, responding to the ICRG requirements, and accessing assistance and needed training.



**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

SEPTEMBER 2017

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INNOVEX Auditors

8 Kilimani Road
Ada Estate (Near the French Embassy)
P.O. Box 75297
Dar es Salaam, Tanzania
Mobile: +255 715 540 949
Landline: +255 22 2664099
Fax: +255 22 2664098
Email: admin@innovexdc.com
Website: www.innovexdc.com

The President
Council of Ministers
Eastern and Southern Africa Anti-Money Laundering Group
PO Box 9923
Dar es Salaam
Tanzania

INDEPENDENT AUDITORS' REPORT TO MEMBERS OF THE EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP**Opinion**

We have audited the accompanying financial statements of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) set out on pages 13 to 52 which comprise the statement of financial position as at 31 March 2017, the statement of profit or loss and other comprehensive income, the statement of changes in reserves and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Eastern and Southern Africa Anti-Money Laundering Group as at 31 March 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Eastern and Southern Africa Anti-Money Laundry Group (ESAAMLG) in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in United Republic of Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Council of Minister's is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as Council of Minister's determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council of Minister's is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Council of Minister's either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT (Continued)

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Irving Manning.

INNOVEX Auditors

Certified Public Accountants

Dar es Salaam

Irving Manning, CPA - PP

Date _____ 2017

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**EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP (ESAAMLG)
FINANCIAL STATEMENTS**

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

ASSETS	Notes	2017 USD	2016 USD
Non-current assets			
Property and equipment	4	40,539	34,963
Intangible assets	5	-	-
		<u>40,539</u>	<u>34,963</u>
Current assets			
Subscriptions receivable	6	330,043	275,776
VAT receivable	7	52,155	22,750
Other receivables	8	60,228	59,778
Fixed deposits with NBC	9	374,681	469,775
Cash and cash equivalents	10	297,722	310,366
		<u>1,114,829</u>	<u>1,138,445</u>
TOTAL ASSETS		<u>1,155,368</u>	<u>1,173,408</u>
RESERVES AND LIABILITIES			
Reserves			
Special reserve	22	381,051	479,444
Accumulated surplus		274,829	264,746
		<u>655,880</u>	<u>744,190</u>
Long term liabilities			
Deferred capital grants	12	-	-
Staff gratuity	14	27,720	30,448
		<u>27,720</u>	<u>30,448</u>
Current liabilities			
Subscriptions received in advance	11	215,419	106,845
Deferred capital grants	12	-	663
Deferred operating grants	13	28,875	115,035
Staff gratuity	14	78,251	28,765
Other payables and accruals	15	149,223	147,462
		<u>471,768</u>	<u>398,770</u>
TOTAL RESERVES AND LIABILITIES		<u>1,155,368</u>	<u>1,173,408</u>

The Notes on pages 17 to 52 form an integral part of these financial statements. The financial statements on pages 13 to 16 were authorized for issue by the Council of Ministers on..... 2017 and were signed on its behalf by:



Hon. Patrick A. Chinamasa
President of the ESAAMLG



Dr. Eliawony Kisanga
Executive Secretary

The independent auditor's report is on pages 11 to 12.

**EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP (ESAAMLG)
FINANCIAL STATEMENTS**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017**

	Notes	2017 USD	2016 USD
INCOME			
Subscription income	16	1,033,778	1,002,500
Operating grants released to income	13	209,594	321,667
Other operating income	17	75,984	184,749
		<u>1,319,356</u>	<u>1,508,916</u>
EXPENDITURE			
Employee benefit expenses	18	742,334	648,651
Administrative expenses	19	158,643	149,505
Meeting expenses	20	191,530	189,915
Special project expenses	21	289,446	385,676
Depreciation charges	4	18,540	19,648
Amortization charges	5	-	23
Audit fees and related costs		8,780	8,780
		<u>1,409,273</u>	<u>1,402,198</u>
(Deficit)/surplus for the year		<u>(89,917)</u>	<u>106,718</u>

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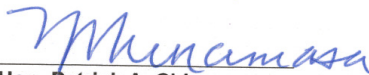
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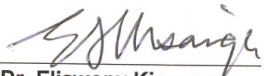
**EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP (ESAAMLG)
FINANCIAL STATEMENTS**

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 MARCH 2017

	Special reserves USD	Accumulated surplus USD	Total reserves USD
31 March 2017			
Opening balance as at 1 April 2016	479,444	264,746	744,190
Interest from fixed deposit	1,607	-	1,607
Transfer from special reserve			
(Fixed deposit liquidated during the year)	(100,000)	100,000	-
Deficit for the year	-	(89,917)	(89,917)
Closing balance as at 31 March 2017	<u>381,051</u>	<u>274,829</u>	<u>655,880</u>
31 March 2016			
Opening balance as at 1 April 2015	473,316	158,028	631,344
Interest from fixed deposit	6,128	-	6,128
Surplus for the year	-	106,718	106,718
Closing balance as at 31 March 2016	<u>479,444</u>	<u>264,746</u>	<u>744,190</u>

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**EASTERN AND SOUTHERN AFRICA ANTI-MONEY LAUNDERING GROUP (ESAAMLG)
FINANCIAL STATEMENTS**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017**

	Notes	2017 USD	2016 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit)/surplus for the year		(89,917)	106,718
<i>Non-cash adjustments</i>			
Depreciation of property and equipment	4	18,540	19,648
Amortization of intangible assets	5	-	23
Amortization of operating grants	12	(663)	(3,975)
<i>Working capital adjustments</i>			
Increase in subscription receivable		(54,267)	(48,221)
(Increase)/decrease in VAT receivable		(29,405)	30,354
Increase in other receivables		(450)	(16,342)
Increase/(decrease) in subscription received in advance		108,574	(90,152)
(Decrease) in deferred operating grant		(86,160)	(321,667)
Increase/(decrease) in staff gratuity		46,758	(49,417)
Increase in other payables		1,761	54,642
Transfer from special reserve		100,000	-
Net cash flows used in operating activities		14,771	(318,389)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	4	(24,116)	(7,046)
Decrease / (increase) in fixed deposits with NBC		95,094	(6,128)
Net cash flows used in investing activities		70,978	(13,174)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in special reserves		(98,393)	6,128
Net cash flows generated from financing activities		(98,393)	6,128
Net decrease in cash and cash equivalents		(12,644)	(325,435)
Cash and cash equivalents as at 1 April		310,366	635,801
Cash and cash equivalents as at 31 March	10	297,722	310,366

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