



Anti-money laundering and counter-terrorist financing measures **Eritrea**

Mutual Evaluation Report

July 2025





The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) was officially established in 1999 in Arusha, Tanzania through a Memorandum of Understanding (MOU). As at the date of this Report, ESAAMLG membership comprises of 21 countries and also includes a number of regional and international observers such as African Development Bank, COMESA, Commonwealth Secretariat, East African Community, Egmont Group of Financial Intelligence Units, FATF, GIZ, IMF, Portugal, SADC, United Kingdom, United Nations, UNODC, United States of America, World Bank and World Customs Organization.

ESAAMLG's members and observers are committed to the effective implementation and enforcement of internationally accepted standards against money laundering and the financing of terrorism and proliferation, in particular the FATF Recommendations.

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MUTUAL EVALUATION REPORT

OF

STATE OF ERITREA

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Executive Summary

1. This report summarises the AML/CFT measures in place in the State of Eritrea as at the date of the on-site visit from 16 July to 2 August 2024. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the State of Eritrea's AML/CFT system, and provides recommendations on how the system could be strengthened.

Key Findings

- a. In general, Eritrea appears less attractive to significant ML and TF risks owing to the financial system being owned/controlled by the State and providing simple and less sophisticated services (e.g., no automatic teller machines, debit or credit cards and internet banking) within a generally low national crime level.
- b. Eritrea has low ML/TF risk understanding, though it appears less attractive for ML/TF since the financial sector is owned by the State and is less sophisticated and linked to the global financial system. Eritrea has identified human trafficking, human smuggling, illicit trading in contraband and robbery as the main sources of ML threats while it considers conflicts within the region as the main sources for TF threats. However, the magnitude/scale of the ML/TF threats have not been assessed.
- c. Due to the recency of the National Task Force, there are no coordinated AML/CFT policies/priorities and risk assessment to direct the actions and allocation of resources of competent authorities.
- d. Eritrea has major technical compliance deficiencies in foundational AML/CFT regime on TF and ML offences, risk assessment and RBA, TFS (TF and PF), CDD, STRs and MLA/extradition. In addition, Eritrea has resource constraints across the AML/CFT regime.
- e. Eritrea has strong market entry rules for determining BO and fitness and probity characters for market participants in the FIs and DNFBP sectors. The BE and the FIU (not yet operational) do not apply RBA while DNFBPs have no AML/CFT supervisor.
- f. FIs have a fair understanding of ML risks and some AML obligations while both FIs and DNFBPs showed a low understanding of TF risks and CFT obligations. The sectors do not perform well on enhanced measures (e.g., EDD), BO, TFS and STRs.
- g. Eritrea has no operational FIU, concrete plans and budget to commence operations. The LEAs have not accessed and used financial intelligence for ML/TF investigation, prosecution and asset recovery. In general, LEAs are not adequately resourced.
- h. Eritrea demonstrated low ML/TF risk understanding and lacked risk-based mitigation measures. Availability of accurate and up-to-date BO Information could not be tested since the LEAs have not accessed and used BO information for ML/TF and predicate offences.
- i. Eritrea does not have overarching policy objective to pursue confiscation of criminal property. The competent authorities central to freezing, seizing or confiscating

criminal property have not commenced operations or do not have sufficient capacity. This has undermined the country's effort to recover criminal property with more focus on proceeds of predicate offences than prioritising ML cases. Overall, Eritrea has not recovered assets consistent with its risk profile.

- j. Eritrea has no legal basis for MLA and has yet to make or receive a request on any criminal matter. Except for a single case by the police through INTERPOL channel, no competent authority has engaged in international cooperation on AML/CFT matters with foreign counterparts.

Risks and General Situation

2. Eritrea's financial sector is small, simple and less integrated with the global financial system owing largely to past UNSC sanctions¹ and domestic legal restrictions² on financial flows. As a result, Eritrea virtually is a closed economy with the government owning or controlling the entire financial sector and the broader economy. Eritrea has a limited presence of FATF-designated activities which appear to make the country less attractive to money laundering and terrorist financing (ML/TF) risk. AML/CFT development in Eritrea is nascent and its implementation at policy and operational levels is not risk-informed.
3. The ML and TF risks in Eritrea are difficult to determine mainly due to sketchy data and information about the country. In the context of Eritrea, crime is generally low, although ML threats appear largely domestic from theft and robbery, illicit trading in contraband, human trafficking and smuggling as the major sources.
4. TF risk appears low owing largely to: (i) tight controls on financial flows, (ii) negligible integration into the global financial system and (iii) the absence of known terrorist groups in Eritrea, although there is appreciation of the significant presence of terrorism and TF threats in and around the East Africa region.
5. Eritrea's risk and general situation appears to show that the country is less attractive for ML and TF.

Overall Level of Compliance and Effectiveness

Assessment of risk, coordination and policy setting (Chapter 2; IO.1, R.1, 2, 33 & 34)

6. The National Task Force has not coordinated ML/TF risk assessment and AML/CFT policies which contributed to low ML/TF risk understanding and a lack of risk-informed AML/CFT priorities and actions across the competent authorities. Eritrea has statutorily identified high-risk situations for which enhanced measures apply. There are no similar decisions on simplified and exemption measures. In the absence of ML/TF risk assessment, no awareness-raising activities were undertaken by the private sector and competent authorities.

¹ <https://news.un.org/feed/view/en/story/2018/11/1025761>

² 2015 Directive

Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29–32)

7. Eritrea has no operational FIU. There are no concrete plans and budget to commence FIU operations beyond the current five (5) staff appointed to set up the FIU. LEAs have not accessed and used financial intelligence to pursue ML and trace assets. There is no ML case identified, investigated, nor prosecuted and no asset recovered for any period in Eritrea. Except for a few predicate offences, no assets on ML have been recovered.

Terrorist and proliferation financing (Chapter 4; IO.9, 10, 11; R. 1, 4, 5–8, 30, 31 & 39.)

8. Eritrea has not detected, investigated nor prosecuted any TF case. The counter-terrorism approach is not based on TF risk understanding and does not prioritise TF. Eritrea does not have the legal basis and implementing mechanisms for applying TFS without delay, though the banks and MVTs apply some measures voluntarily. Eritrea has not undertaken an NPOs risk assessment to determine the types of NPOs most vulnerable to TF abuse. No risk-based oversight and monitoring was applied to NPOs. In 2007, Eritrea ceased foreign NPO activities, with only Eritrean government-funded NPOs operating in the country. Eritrea does not have the legal basis and implementing mechanisms for applying TFS on PF without delay.

Preventive measures (Chapter 5; IO.4; R.9–23)

9. The AML/CFT Proclamation No.175/2014 (as amended) is the main piece of legislation on AML/CFT obligations for the FIs and DNFBPs (except for lawyers and accountants, other activities do not exist in Eritrea). DNFBPs are only required to implement STR and tipping-off prohibition obligations without any proven low risks. VASPs are not recognized in terms of Article 5 of the Commercial Code of Eritrea and do not exist/operate in Eritrea.
10. There are no requirements for FIs and DNFBPs to conduct ML/TF risk assessments and implement risk-based measures. The FIs and DNFBPs have not undertaken risk assessments on products/services, delivery channels and geographical risks. The AML/CFT legal framework has major deficiencies which include Due Diligence (CDD) specifically Beneficial Ownership (BO), Enhanced Due Diligence (EDD) and Ongoing Due Diligence (ODD); politically exposed persons (PEPs); Targeted Financial Sanctions (TFS); and Suspicious Transactions Reporting (STR).
11. The overall understanding of ML/TF risks and AML/CFT obligations is generally low, with the banks, FXB and MVTs performing better than the rest and DNFBPs. More specifically, FIs appear to have a good understanding of ML risks and AML obligations and a low understanding on TF risks and CFT obligations. This is attributed to lack of supervisory actions, including outreach and guidance. Although banks identified STRs, no STRs were submitted to the FIU since it is not yet operational. The rest of the FIs and DNFBPs have not identified and filed any STR.

Supervision (Chapter 6; IO.3; R.14, R.26–28, 34, 35)

12. The financial sector is small and less sophisticated, and characterised by the absence of modern payment systems (e.g., no automatic teller machines, debit or credit cards and internet banking) and dominance of cash-based and informal transactions which undermine transparency and record keeping of transactions. The regulators of financial institutions and DNFBPs have and apply stringent market entry requirements with robust market entry rules for BO and fit and proper tests for senior management, with State ownership/control of all FIs as a major contributor. There are no VASPs in Eritrea.

13. The BE and the FIU (which is not yet operational) are the AML/CFT supervisors for all FIs, except for the sole microfinance (a financial inclusion programme under the Ministry of Finance), but lack adequate RBA tools, outreach and resources. The few AML/CFT inspections by the BE are narrow in scope and details to provide sufficient information to determine the impact of supervisory actions on the compliance behaviour of the FIs. The DNFBPs are without a supervisor and are not monitored for compliance.

Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)

14. Information on the creation of legal persons such as companies is provided under the Commercial Code 1960, and the BLO maintains information on their creation and existence and exercises oversight on them for compliance with statutory obligations. Legal arrangements are not legally recognised and do not operate in Eritrea. The country demonstrated a low understanding of the potential ML/TF risks facing legal persons largely due to the absence of ML/TF risk assessment of the sector. As a result, there are no risk-based mitigation measures in place. There is no evidence of LEAs accessing, in a timely manner, BO information for ML and TF investigations to determine the extent to which BO information is available and accessible to them. Similarly, there is no evidence of the LEAs accessing and using BO information held by the FIs and DNFBPs in pursuit of ML and TF cases. In general, basic information is available and accessible by visiting the registry. There is no information demonstrating the extent to which sanctions have been applied by the BLO for non-compliance with statutory obligations and by the supervisors when FIs fail to maintain and make available BO information.

International cooperation (Chapter 8; IO.2; R.36–40)

15. Eritrea has ratified some international instruments as required in R.36. Eritrea has no legal framework for MLA nor a central authority. At the time of the onsite mission, Eritrea had neither initiated nor received any MLA/extradition requests for ML and TF. Except for the police through the INTERPOL channels, there is no evidence of international cooperation on AML/CFT matters with foreign counterparts.

Priority Actions

Eritrea should:

- a. Assess the ML/TF risks it faces and coordinate risk-informed AML/CFT policies and priorities to support resources allocation decisions.
- b. Address the technical compliance deficiencies identified in ML offence (R.3, to ensure that the ML offence covers a full range of predicate offences), TF offences (R.5), TFS (R.6 and R.7), CDD (R.10) and STRs (R.20). In addition, apply obligations to DNFBPs beyond STRs and tipping-off prohibition unless proven by low risk.
- c. Ensure that the LEAs with the mandate to pursue an investigation of financial crime receive appropriate training that will capacitate them to identify, investigate and prosecute ML and TF in addition to conducting parallel financial investigations.
- d. Develop and implement asset recovery policy and prioritise asset recovery by building the capacity of the agencies charged with identifying, freezing, seizing and confiscating criminal property.
- e. Improve granular ML/TF risk understanding of FIs and DNFBPs through risk assessments. This should include working closely with the BE and the FIU (once operational) for targeted outreach/awareness-raising activities and issuance of specific guidance.
- f. Build RBA capability for the BE and the FIU to enable effective supervision of FIs and monitoring compliance behaviour. This should equally apply to the future DNFBPs AML/CFT supervisor.
- g. Complete the process of setting up the FIU by adequately resourcing and skilling including providing training on operational and strategic analysis and conduct its core functions to support ML/TF investigations. The FIU should ensure that STRs are filed to it in a secure manner including those identified, held and not filed by the banks because the FIU is operational.
- h. Build the operational capacity of the LEAs to enable them to prioritise ML/TF cases and asset recovery. This should include provision of resources and training on: (i) the powers and functions of the LEAs and the FIU, (ii) ML and TF concepts, (iii) financial investigations, and (iv) the use of financial intelligence of the FIU.
- i. Address the technical compliance deficiencies identified on R.24 focusing on legal and implementing measures for BO information. Eritrea should conduct ML/TF risk assessment of the legal persons and maintain accurate and up to date BO information and make it accessible in a timely manner to the LEAs. The BLO and the supervisors should take proportionate and dissuasive sanctions for non-compliance with statutory reporting obligations, particularly BO information.
- j. Develop legal framework to enhance mutual legal assistance, extraditions and other forms of international cooperation and ensure that the country is a party to all relevant international conventions.

Effectiveness & Technical Compliance Ratings

Table 1. Effectiveness Ratings

IO.1	IO.2	IO.3	IO.4	IO.5	IO.6	IO.7	IO.8	IO.9	IO.10	IO.11
LE	LE	LE	LE	LE	LE	LE	LE	LE	LE	LE

Note: Effectiveness ratings can be either a High- HE, Substantial- SE, Moderate- ME, or Low – LE, level of effectiveness.

Table 2. Technical Compliance Ratings

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
NC	NC	NC	PC	PC	NC	NC	NC	PC	PC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
LC	PC	PC	PC	NC	NC	NA	LC	NC	NC
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
LC	NC	NC	NC	N/A	PC	LC	NC	NC	PC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
PC	NC	NC	PC	PC	PC	NC	PC	PC	PC

Note: Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non-compliant.

MUTUAL EVALUATION REPORT

Preface

This report summarises the AML/CFT measures in place in the State of Eritrea as at the date of the on-site visit. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the AML/CFT system of Eritrea and recommends how the system could be strengthened.

This evaluation was based on the 2012 FATF Recommendations and was prepared using the 2013 Methodology. The evaluation was based on information provided by the country, and information obtained by the evaluation team during its on-site visit in Asmara, Eritrea from 16 July - 2 August 2024.

The evaluation was conducted by an assessment team consisting of:

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With the support from the ESAAMLG Secretariat of Messrs. Mofokeng Ramakhala (Team Leader) Phineas Moloto (Technical Advisor) and Muluken Yirga Dubale (Senior Legal Expert). The report was reviewed by Jennifer Gitiri, Kenya, Shubert Sinkala, Zambia and the FATF Secretariat.

Eritrea has never been assessed under the FATF mutual evaluation. This is the first Mutual Evaluation of Eritrea, conducted according to the 2013 FATF Methodology.

Chapter 1. ML/TF RISKS AND CONTEXT

16. The State of Eritrea (Eritrea) is one of the world's youngest countries, having gained independence in 1991 from Ethiopia. Eritrea was first under Italian Colonial rule from 1880-1941, the British administration from 1941-1950, and the Ethiopian Federation 1952. The Federation was subsequently abolished, and Eritrea was fully annexed by Ethiopia administration. This led to the war for independence in 1961 which ended in 1991.
17. Eritrea is in the Horn of Africa and strategically situated on the western shores of the Red Sea. Eritrea is bordered to the northeast and east by the Red Sea, Sudan to the west, Ethiopia to the south, and Djibouti to the southeast. The country's total land area is approximately 124,320 square kilometres (km²) with a coastline spanning approximately 3,300 km, inclusive of its 354 scattered islands, while its territorial waters within the Red Sea extend to cover a total area of about 55,000 km². Eritrea is mainly arid and semi-arid, with little and erratic rainfall.
18. Eritrea follows a presidential system of government. The President is elected by the National Assembly by an absolute majority vote of the legislative members. The President is the Head of State, of the Government, of the State Council (Cabinet), and of the Legislative National Assembly. The current Constitution is suspended under the state of emergency law. As a result, the President assumes the powers of the National Assembly in respect of law-making and treaty ratification.
19. Eritrea has six *Zobas* (regions), which vary substantially in terms of their respective size, population, biodiversity, geography, and socioeconomic conditions. These are Maekel, Anseba, Debub, Gash-Barka, Northern Red Sea and Southern Red Sea.
20. Eritrea has two sea main ports, Massawa and Assab. Currently, Eritrea uses Massawa port as the main seaport for goods movements coming mainly to or from the UAE, India, Italy, Switzerland, Germany, Saudi Arabia, South Korea, & Singapore. The Asmara International Airport serves as an international gateway into & out of Eritrea.
21. The total population of Eritrea is about 3.7 million, with an estimated annual growth rate of 2.4 percent. Overall, Eritrea has a young population. About two-thirds of the country's population lives in rural areas, while population density in the country stands at approximately 30 people per km² of land area. The country's population, which blends different sociocultural elements, comprises nine ethno-linguistic groups nearly split evenly between two main religious faiths, specifically Islam and Christianity.
22. The Eritrean economy is small in GDP values and has limited integration into the global economy. Mining (which attracts the most foreign direct investment), agriculture and services dominate GDP contribution. The economy is dominated by informal and cash-intensive transactions, presenting challenges for transparency and record keeping of the transactions. Real GDP expanded from 2.6% in 2022 to an estimated 2.9% in 2023, driven by mining and services. The current account surplus increased to an estimated 14.1% of GDP in 2023 with improvements in the merchandise trade balance as exports increased, mainly minerals. The public debt-to-GDP ratio was estimated at 164% for 2022, with domestic debt accounting for 68%, implying minimal foreign currency risk.
23. The country's exports comprise of zinc ores and concentrates, copper ores and concentrates, and gold unwrought or in semi-manufactured forms, which account for more than 90 percent of all export earnings as illustrated in the table below.

Table 1.1: Eritrea: 2021 - 2023 Summary of Exports in Value (in Millions of USD)

Description	2021	2022	2023
Mining Products (Copper & Zinc Concentrates, Silver & Gold Ores)	656.99	706.77	616.73
Other Products	3.80	6.78	8.23
Total	660.79	713.55	624.96
Mining Products %	99.42%	99.05%	98.68%

Source: Ministry of Finance

24. Notably, in July 2018, Eritrea signed a historic peace agreement with Ethiopia, bringing an end to decades of devastating war and tensions. Not long after, in September 2018, the two countries, this time joined by Somalia, signed a tripartite cooperation agreement, while in November 2018, the United Nations Security Council (UNSC) unanimously agreed to lift decade-long international sanctions against Eritrea for allegedly supporting Al-Shabaab.

Legal and Administrative System

25. The Eritrean legal system is codified and based on a civil law system. The main sources of law are the transitional codes, proclamations, regulations, directives, and case law emanating from decision of the review bench of the High Court. The appointment of Judges is based on Proclamation 1/1991, and the High Court Judges are appointed by the President of the State on recommendation by the Minister of Justice.
26. Eritrea's judiciary is constituted in a hierarchical order starting from the Court of First Instance, Zoba court, Court of Appeal and High Court, in ascending order. The Courts of First Instance have jurisdiction to try civil matters that involve less than 500,000.00 Nakfa (USD 33,333.00) and over crimes that are punishable with simple imprisonment, or rigorous imprisonment of less than ten years. The Zoba Court tries cases that involve greater than 500,000.00 Nakfa and above on civil matters and serious crimes punishable with rigorous imprisonment greater than 10 years. AML/CFT policy decisions are centrally controlled but administered through regional offices, which report to their respective Head offices. Then the report is channelled to the Ministry of Finance and National Development through the National Task Force. The Office of the President oversees the implementation of AML/CFT policy decisions.

1.1. ML/TF Risks and Scoping of Higher Risk Issues

1.1.1 Overview of ML/TF Risks

27. Eritrea faces significant challenges in availability of reliable information for determining the country's ML/TF risk situation due to the absence of a risk assessment. In the context of Eritrea, there are distinct contextual factors impacting on the extent of the prevalence of ML and TF threats. The financial sector and the broader economy are state-owned or controlled, and have negligible linkage with the regional and global financial systems. This specific context appears to make Eritrea less attractive for ML and TF.
28. Eritrea perceives ML and TF risks as low which is largely based on the noticeably low domestic crime rates. Eritrea considers ML threats as mainly domestic and associated with illicit trade in contraband, theft and robbery, human trafficking and human smuggling forgery, and tax evasion. Although there are data challenges, available information points to low proceeds generated or recovered which appear consistent with the general crime situation in the country. Eritrea

understands terrorism threats mainly from past regional conflicts after independence from Ethiopia in 1991. These include infiltration and terrorist activities from Jihadist terrorist groups from Sudan and attempts by terrorist organisations to set up some cells within the country. In 2018, there was infiltration and terrorist acts from northern Ethiopia into Eritrea over territorial disputes between the countries. Following peace agreements with Sudan and Ethiopia in 2018, Eritrea has not experienced terrorist acts. Eritrea has not identified nor investigated TF activity during the period under review.

29. Overall, Eritrea has inadequate legal and institutional frameworks and resources to mitigate the ML and TF risks.

1.1.2 Country's Risk Assessment & Scoping of Higher Risk Issues

30. In the context of Eritrea, the financial sector which comprises limited financial activities (as per the FATF scope) is the most important relative to the DNFBPs (and no VASPs presence). However, the financial sector is small, less sophisticated and has negligible connections with the global financial system. Other FIs (i.e., insurance and micro-finance) and the rest of the DNFBPs have little to no activities, thereby presenting low ML/TF risk to Eritrea's financial system.
31. The financial sector and the broader economy are under state ownership or control with tight regulations and enforcement, and severe punishment for violation. Eritrea's specific contextual factors are considered significant for assessing the relative sectoral importance and weightage to the ML/TF risks in the country.

Money Laundering

32. ***ML risks understanding:*** Eritrea has not carried out any ML risk assessment for its first-ever mutual evaluation after joining the ESAAMLG in September 2021. Overall, Eritrea has data and information challenges which affect ML risk understanding, particularly in the absence of a risk assessment. The AT explored the extent to which the Authorities have developed ML risk understanding and are able to maintain it to inform coordination of domestic policy and operational priorities of competent authorities.
33. ***Identification and completion of ML cases:*** Due to the nascency of the AML/CFT regime, law enforcement agencies have just started focusing on laundering of proceeds and have not identified or investigated a ML case. Eritrea has no operational FIU to support LEAs with financial intelligence. The AT assessed the capabilities of the LEAs to investigate and prosecute ML cases, and of the judiciary. The AT further explored how law enforcement agencies pursue high-risk proceeds and ML, including the extent of access to and use of financial intelligence to identify and complete ML cases and recover assets.

Terrorist Financing

34. Eritrea attributes terrorism and terrorism financing to conflicts in the region. Eritrean authorities view domestic TF as insignificant to potential TF activities. The AT determined the extent to which different types of TF activities are understood, and efforts are coordinated to implement risk-informed policies and action against TF. Eritrea recognises the potential TF risks associated with the cross-border security situations bordering the country or relatively close jurisdictions, and that terrorist organisations and individuals (and sympathisers in general) can operate in these regions, to raise, and move cash across Eritrean borders to support TF activities elsewhere.

35. **TF detection and prosecution:** Since 1990s, Eritrea has been focusing heavily on terrorism emanating from armed conflicts in the region for its security. The AT explored how the different divisions of intelligence and investigative agencies possessed and applied capabilities to identify and prioritise TF routinely in terrorism cases (i.e., carry out parallel financial investigation) and the extent to which the prosecution and judiciary were able to pursue TF as a separate offence from terrorism.

Proliferation Financing

36. Eritrea does not have regulatory and institutional frameworks, including supervisory actions such as outreach and guidance for implementation of TFS on PF. The AT explored autonomous actions taken by FIs and DNFBPs.

Money Laundering and terrorist financing

37. The financial sector and the broader economy are small, cash-intensive, and informal, and provide less sophisticated product offerings. Eritrea has experienced slow rate of financial inclusion due to low profit margins, negligible use of technology (e.g., no automated teller machines in the country), and high operation costs especially in rural areas.
- a) **Banking sector:** Given the materiality and state ownership of banks, the AT focused on the extent to which the sector: (a) understands ML/TF risks, (b) applies commensurate preventive measures to mitigate and manage the risks identified, and (c) whether the sector was being supervised, monitored for compliance, and sanctioned for non-compliance.
 - b) **Money or value transfer service:** Based on materiality and potential ML/TF risks associated with this remittance channel, the AT focused on how well risks including the use of alternative remittances were understood and commensurate mitigating measures (e.g., due diligence, transaction monitoring and reporting) were applied. The AT also explored the extent to which effective and risk-focused supervision and monitoring brought about compliance, and the extent to which illegal/unlicensed operators were identified and sanctioned.
 - c) **Illicit use of cash:** Eritrea has long land borders and a strategic seaport which Authorities consider as potentially posing major ML/TF threats. Eritrea implemented strict regulatory measures on the use of cash couriers at home and for cross-border cash movement. The AT explored the extent to which competent authorities had capability to understand and mitigate the risks of illicit use of cash and its cross-border movement.

1.1.3 Scoping of Lower Risk Issues

DNFBPs

38. In the context of Eritrea, the DNFBPs sector has little to no activities, and thus less attractive for ML and TF. As a result, the AT placed low focus on the DNFBPs based on the following:
- a) **Casinos** are prohibited by law in Eritrea, and there was no evidence of casino activities at the time of the onsite visit.
 - b) **Real estate** transactions are negligible in size and value. Lawyers are only involved in preparing contract of sale or providing advice to transacting parties but do not handle funds. Additionally, there is no requirement to use intermediaries in real estate transactions with contracting parties generally concluding the transaction on their own. In general, government

has the moratorium on real estate developments

- c) **Trusts and similar legal arrangements** do not exist in Eritrea by the Civil Code, and there was no evidence of the presence of such activities at the time of the onsite visit.
- d) **Company Service Providers:** There is negligible evidence of lawyers and accountants being involved in preparation of incorporation documents on behalf of their clients who must hand them over themselves to the registry and other competent authorities until the company is fully incorporated.
- e) Dealers in precious stones and metals do not exist in Eritrea.

Virtual Assets Service Providers (VASPs)

- 39. There is no evidence of virtual asset transactions and VASPs in Eritrea. The financial sector is closed to the outside world, and it appears that there is no financial system infrastructure to facilitate such activities.

1.2. Materiality

- 40. The Eritrean financial system is small, simple and less sophisticated and state-owned. It is dominated by two commercial banks with 29 branches nationwide, followed by the only insurance company with two branches & the only bureau de change and money or value transfer service (MVTS) which exchanges various foreign currencies and acts as an agent of international MVTS companies in processing inward remittances largely from Eritrean Diaspora. The Bureau de Change has 12 pay-out stations. Eritrea has one micro-finance scheme operated by the Ministry of Finance and National Development, and is in the process of being licensed by the BE. There is no securities sector in Eritrea.
- 41. The financial system has a negligible connection with the international financial system, with one bank engaged in correspondent banking relationships for the settlement of inward remittances, and with inward as well as outward Cross Border Wire Transfers for all government transactions. None of the financial institutions have operations outside of the country.
- 42. For context, money remittance plays an important role in the financial sector of Eritrea. Outward remittances are prohibited by law. However, the two commercial banks conduct outward remittance in exceptional circumstances such as paying for medical services outside of the country which require approval by the government.
- 43. The banking sector is the most dominant and important financial services provider in Eritrea, followed by the MVTS which conducts inbound transactions only. [see section 1.4.3 below].

1.3. Structural Elements

- 44. Eritrea was negatively impacted by the war with Ethiopia and the imposition of UNSC sanctions (both ended in 2018) on its ability to establish key AML/CFT legislative and institutional reforms. Since 1998, Eritrea has been in a state of emergency and suspended the Constitution and Parliament, with the President delegated to assume their powers. Eritrea applies presidential decrees on the rule of law, private property right and judiciary. Eritrea has a high-level political commitment to AML/CFT as shown by the country's full membership to the ESAAMLG in September 2021. This was followed by extensive AML/CFT legislative and institutional reviews and some capacity

building. The National Task Force on AML/CFT (NTF) provides policy advice to the Ministry of Finance and National Development and is intended to coordinate the implementation of policies and risk assessment. Overall, Eritrea has a nascent AML/CFT regime and requires extensive capacity building and resources for effectiveness.

1.4. Background and Other Contextual Factors

45. Eritrea has little interaction with the international financial system, including meaningful engagement with international financial institutions such as the World Bank and the IMF, on issues related to AML/CFT or the broader financial sector or economy. Eritrea has acceded to the Vienna and Palermo Conventions but is not yet a party to the Merida and Counter Terrorist Financing Conventions. Eritrea has difficulties with data and information availability necessary to comprehensively appreciate the contextual issues of its AML/CFT system. Further, Eritrea has not subjected itself to independent reviews for compliance with international standards, such as the implementation of the UNCAC and the FSAP by the IMF, for which the information would have been useful for the mutual evaluation. The lack of information has made it difficult for the AT to conduct an adequate review on the relevant contextual factors to the AML/CFT regime.
46. The negative effects of the war and the UNSCR sanctions have permeated throughout the AML/CFT regime of Eritrea. With no access to external financing and limited domestic resources, Eritrea tightened regulatory and enforcement measures to curb spiralling inflation and hoarding of cash. Eritrea introduced new currency notes, on par with old notes, for which residents were required to exchange at any bank provided the resident had a bank account in which the funds would be deposited, and this has significantly curbed the parallel currency market (rose to 330 per cent to the USD) through the introduction of the BE's 2015 Directive. The Directive introduced cash payment and transfer threshold limits for cash withdrawals to 5000 nakfa (350 USD) a month for individuals and 20000 nakfa (1340 USD) a month for companies. Transfers of more than 5000 nakfa (350 USD) can only be done by cheque deposit or through a bank. Eritrea has increased its financial inclusion, banking liquidity (by 50 percent), tax revenue and availability of recorded financial transactions conducted in the country. There is a high-level committee comprising senior government officials, including the governor of the BE to monitor and enforce the Directive.
47. The lack of resources affected the capacities of competent authorities and the process of operationalising the FIU. The competent authorities have not demonstrated that their priorities, objectives, and actions are aligned with and address the risks identified. The NTF is yet to fully carry out its AML/CFT responsibilities beyond preparations for this mutual evaluation process.
48. Following independence from Ethiopia in 1991, Eritrea remained a centrally planned and closed economy with limited participation by the private sector and international institutions, except mining by international companies in partnership with the government. The ongoing reforms by the government following the end of the conflict and the removal of UNSC sanctions have not significantly changed the risk, context and materiality of Eritrea.

1.4.1 AML/CFT strategy

49. In the absence of a risk assessment, Eritrea does not have a risk-informed AML/CFT Strategy. . Eritrea expressed its AML/CFT policies and strategies through setting up legal and institutional arrangements to implement the stated objectives and mandates. In general, the measures in place have not aligned to the ML/TF risks facing the country.

1.4.2 Legal & institutional framework

50. The AML/CFT Proclamation, 2014 (as amended) criminalises ML and TF offences, sets out AML/CFT requirements, and provides the legal basis for the FIU, though significant gaps remain. The Proclamation is complimented by the Transitional Penal Code, Transitional Criminal Procedure Code and Transitional Commercial Code underlying the main AML/CFT legal framework in Eritrea. The principal roles and responsibilities of each body involved in the AML/CFT regime are as follows:

Policy Coordination Bodies

51. Eritrea was negatively impacted by the war with Ethiopia and the imposition of UNSC sanctions (both ended in 2018) on its ability to establish key AML/CFT legislative and institutional reforms. Since 1998, Eritrea has been in a state of emergency and suspended the Constitution and the Parliament with the President delegated to assume their powers. Eritrea applies presidential decrees on the rule of law, private property right and judiciary. Eritrea has a high-level political commitment to AML/CFT as shown by the country's full membership to the ESAAMLG in September 2021. This was followed by extensive AML/CFT legislative and institutional reviews and some capacity building. The National Task Force on AML/CFT (NTF) provides policy advice to the Ministry of Finance and National Development and is intended to coordinate the implementation of policies and risk assessment. Overall, Eritrea has a nascent AML/CFT regime and requires extensive capacity building and resources for effectiveness.

Ministries

52. The **Ministry of Finance and National Development** is responsible for formulating and implementing the government's AML/CFT/CPF policies.
53. The **Ministry of Justice** is responsible for the execution of international cooperation requests and the development of legislation.
54. The **Ministry of Foreign Affairs** is a diplomatic channel with the rest of the world.
55. The **Ministry of Trade and Industry** is responsible for creating commercial entities and licensing through BLO.

Criminal Justice and Operational Bodies

56. The **National Police and Security Forces Command**, which comprises: (i) the Eritrean Police (responsible for crime prevention and investigation); (ii) Internal Security, responsible for Anti-Terrorism and Anti-Corruption; (iii) Immigration and Nationality; (iv) the Training Centre, and (v) the Prison and Rehabilitation Service.
57. The **Inland Revenue Department (IRD)** under the Ministry of Finance and National Development has a tax investigation mandate. The Legal Division of the IRD handles cases of a criminal nature affecting tax assessment and collection.
58. The **Eritrean Customs Department** under the Ministry of Finance and National Development is responsible for the administration of Customs matters.
59. The **Office of the Attorney General** has authority over prosecutions, reviews investigations and determines evidentiary sufficiency for prosecution.
60. The **Financial Intelligence Unit** is responsible for the receipt of suspicious transaction reports, analysis and dissemination of financial disclosure to support the LEAs. It is not yet operational.

Financial Sector Competent Authorities

61. **The Bank of Eritrea** is the supervisor of financial institutions in Eritrea.

Legal persons

62. **The Business Licensing Office**, under the Ministry of Trade and Industry, is responsible for the registration of legal persons carrying out commercial activities in Eritrea.

63. **Internal Security Department under the National Police and Security Forces Command** is responsible for registering associations in Eritrea.

1.4.3 Financial Sector, DNFBPs and VASPs

Financial sector

64. Eritrea's financial sector is very small in terms of the number of entities and assets under management, is less sophisticated in product offerings, and has limited interconnectedness with the global financial system. The sector provides transactions and products using traditional ways of delivery of financial service since the sector lacks modernisation or automation of the services (e.g. there are no automated teller machines, card payments and internet banking). The financial sector comprises two (2) commercial banks, one (1) development bank, one (1) bureau de change, and one (1) MVTs (both under one company), one (1) insurance company, and one (1) microfinance under the Saving and Micro Credit Programme of the Ministry of Finance and National Development.

65. Except for the Insurance Company which has about 11 percent domestic private ownership, all the FIs are state-owned. They offer simple and less sophisticated products/services. The ownership structure and size of the financial sector is indicated in the table below:

Table 1: Structure and Size of the Financial Institutions

Name of Entity	Ownership structure	Total Assets (USD)	Percent
Commercial Bank of Eritrea	100 per cent State-owned	3,129,308,193.51	55.9%
Housing and Commerce Bank of Eritrea ³	100 percent State-owned	2,323,690,067.24	41.5%
Eritrean Development and Investment Bank	100 percent State-owned.	33,748,469.21	0.6%
Himbol Community Financial Services (Foreign Exchange Bureau and inbound money remittance only). ⁴	100 per cent State-owned	47,999,018.00	0.9%
National Insurance Corporation of Eritrea	Is state-owned with 11 percent private sector shareholding.	67,860,746	1.2%
Total		5,602,598,493	100

Source: Data provided by the Eritrean Authorities

³ Administered through the Peoples Front for Democracy and Justice as the political party currently in government.

⁴ Administered through the Peoples Front for Democracy and Justice as the political party currently in government.

66. **Banking Sector:** The commercial banking sector is the dominant financial service provider in Eritrea, with about 97.33 percent of assets under management (USD5.45 billion). There are only two (2) commercial banks which offer less sophisticated financial services through a total network of 29 branches nationwide and by walk-in methods since the banks do not provide remote access to services through methods such as internet banking, credit or debit cards, automated teller machines and mobile banking. The bank branches are not interconnected and have little interconnection with the international financial system, except for activities mainly associated with the centralised processing of government cross-border payments.

Non-Bank Financial Institutions (NBFIs):

67. **Development Bank and Micro-finance:** The non-bank financial institutions consist of two (2) wholly owned government entities, namely, a Development Bank and a Microfinance Institution (under a Savings and Micro Credit Programme of the Ministry of Finance and National Development which is in the process of being licensed by the BE). The two entities provide loans to Eritreans.
68. **Insurance Sector:** Eritrea has one insurance company with 89 percent state-ownership and 11 percent domestic private ownership. It provides negligible life insurance products & services totalling US\$1.83million or 9.22% of the total insurance products and services as of end of 2023, with short-term insurance accounting for the remainder. A significant amount of life products premium is collected from the Government employees through their respective Ministries and institution. The insurance company operates a largely non-cash contribution model for the life products as all of its customers' contributions are through cheque payments. Claims payments to beneficiaries of life insurance above ERN 1,000 (or USD\$66) are paid directly into the bank accounts of the beneficiary as per BE Directive 2015. The insurance sector is less heavily weighted for ML/TF risk.
69. **Bureau de change and MVTs:** Eritrea has one foreign exchange bureau (FXB) and one MVTs Provider (under one company) as an agent of international money or value transfer service providers for inward cross-border remittance only. The FXB and MVTs deal only in the exchange of foreign currencies and acceptance of inward cross border person-to-person wire/funds transfers mainly in amounts ranging from USD\$100 – USD\$300 sent by Eritrean nationals resident in the diaspora for family support. The total value of inward cross border remittances amounted to USD\$39.54mil during 2022 and USD\$93.92mil during 2023, indicating an increase of USD\$54.38mil or 138% between 2022 and 2023.
70. **Securities Exchange Sector:** There is no securities sector in Eritrea.

Table 2: Financial activities and type of financial institutions

FATF-defined types of financial activities*	Type of entity and activity being performed in Eritrea	No. of Entities	Regulator	AML/CFT Supervisor
Acceptance of deposits and other repayable funds from the public	<i>Commercial Banks:</i> Cash, cheques and savings account	2	BE	BE and the FIU
Lending	<i>Commercial Banks:</i> residential house loans, maintenance loans, domestic trade service loans, overdrafts, real estate loans, short-term loans to enterprises, and personal loan to civil servants. <i>Development Bank:</i> Loans and advances <i>Microfinance:</i> Loans and Savings & Voluntary Savings.	2 1 1	BE Ministry of Finance Ministry of Finance	BE and the FIU None None
Money and Value Transfer Services	<i>Commercial Banks:</i> Inward remittances Only. <i>Foreign Currency Exchange Bureau:</i> Inward remittances Only.	2 1	Bank of Eritrea	Bank of Eritrea and the FIU
Issuing and managing means of payment	<i>Commercial Banks:</i> Cash Payment Orders for settling debt with government, cheques	2	Bank of Eritrea	Bank of Eritrea and the FIU
Financial guarantees and commitments	<i>Commercial banks:</i> Bid bond guarantees and performance guarantees	2	Bank of Eritrea	Bank of Eritrea and the FIU
Trading in: money market instruments; foreign exchange; exchange; interest rate and index instruments; transferable securities; commodity futures trading	<i>Commercial Banks:</i> Money market instruments.	0	Bank of Eritrea	Bank of Eritrea and the FIU
Participation in securities issues and the provision of financial services related to such issues	-	-0	Bank of Eritrea	Bank of Eritrea and the FIU
Individual and collective portfolio management	-	-0	Bank of Eritrea	Bank of Eritrea and the FIU
Safekeeping and administration of cash or liquid securities on behalf of other persons	<i>Commercial Banks:</i> Custody of Gold Jewellery and valuable documents on behalf of customers.	1	Bank of Eritrea	Bank of Eritrea and the FIU
Otherwise investing, administering or managing funds on behalf of other persons	<i>Commercial Banks:</i> Administering or managing funds on behalf of other persons	2	Bank of Eritrea	Bank of Eritrea and the FIU
Underwriting and placement of life insurance and other investment-related insurance	Insurance company	1	Bank of Eritrea	Bank of Eritrea and the FIU
Money and Currency Changing	Commercial Banks Foreign Exchange Bureau	2 1	Bank of Eritrea	Bank of Eritrea and the FIU

* As per the definitions in the glossary of the FATF methodology

The Designated Non-Financial Businesses and Professionals (DNFBPs) sector

71. The DNFBPs sector has little to no presence and activity in Eritrea, with accountants and lawyers being the only active sub-sectors. The sector is less heavily weighted for ML/TF risk. Only natural persons/sole proprietors are authorized to operate in the DNFBPs sector in Eritrea.
72. The DNFBP sector consists of 34 lawyers, 37 certified accountants and auditors, and 9 government public notaries operating in each of the municipalities/cities in Eritrea. Legally, casinos are not permitted and do not operate in Eritrea. In the context of Eritrea, there are no operations of trust and company service providers as a standalone profession. The size of the DNFBP sector is insignificant in absolute terms.
73. **Lawyers and Accountants:** The Lawyers and Accountants in Eritrea carry out activities covered by the FATF Standards to a limited extent. They are only involved in preparing documents for company formation and do not manage clients' assets, including bank accounts, and do not provide business addresses or other administration services. Lawyer's involvement in real estate transactions is limited to drafting contracts and deeds, and providing legal advice since the transacting parties complete the process without an intermediary.
74. **Dealers in precious metals and dealers in precious stones (DPMS) and casino** do not operate in Eritrea.
75. **Real Estate Agents:** Real estate transactions have been suspended by government since 2006. As a result, there are no active real estate agents operating in Eritrea. The purchase or sale of immovable property takes place between a seller and a buyer without the involvement of a real estate agent. However, to a limited extent, Lawyers and Accountants may be involved in the preparatory work such as drafting of real estate transactions sale agreements. In Eritrea, real estate transactions (payment) must be conducted through a bank. Without proof of payment for the real estate transaction from a bank, the transfer of ownership of property will not go through at the deeds office.
76. **Notaries:** Public notaries who operate only in the various municipalities/cities do not participate in any of the FATF activities listed in Recommendation 22(d). The Eritrean public notaries are Government owned; therefore, they do not manage the property of the owners but only facilitate the transfer of ownership of buildings.
77. **Virtual Assets Service Providers (VASPs):** There are no known VASPs operations in Eritrea for which market entry and AML/CFT obligations would apply consistent with the requirements under Recommendation 15.
78. In assessing the effectiveness of the ML/TF preventative measures and the AML/CFT supervision, the AT paid more attention to banks and the MVTs (for inbound money remittance service only). Negligible to no attention was given to all DNFBPs (i.e., lawyers and accountants as the only active sectors) and the other NBFIs. In the context of Eritrea, the AT considered the banks as the **most important** and weighted most heavily; MVTs was considered **important** and weighted moderately while the *bureau de change* and other entities in the financial sector and the DNFBPs sectors were considered less important and weighted **less heavily**. The AT has used these rankings to inform their weighting and conclusions throughout the report, but more apparent in Chapter 5 on IO.4 and Chapter 6 on IO.3.

1.4.4 Preventive measures

79. The Anti-Money Laundering and Combating Financing of Terrorism Proclamation No. 175/2014 (as amended) is the primary legislation setting out AML/CFT requirements for FIs. Moreover, Eritrea issued Legal Notice No. 130/2018 which imposed additional AML/CFT requirements for the FIs. There are no legal (or other enforceable) instruments for the DNFBPs to apply AML/CFT obligations, except for STRs and tipping prohibition requirements. VASPs are not recognised and are not active in Eritrea. The AML/CFT measures for the FIs are not fully compliant with the FATF Standards (see TCs Annex 9 - 23).
80. Eritrea has not exempted or provided simplified measures to any specific sector or activity from the requirements of the AML/CFT preventive measures, and the country does not require AML/CFT preventive measures to be applied by additional sectors which are outside the scope of the FATF Recommendations.

1.4.5 Legal persons and arrangements

Legal persons

81. The Commercial Code 166/1960 (the Commercial Code) provides the legal and regulatory framework for the creation of legal persons. Article 212 of the Commercial Code recognises six forms of business organisations that may exist in Eritrea, namely: ordinary partnerships, joint ventures, general partnerships, limited partnerships, share companies and private limited companies. Business organisations will be deemed commercial if they carry out any of the activities listed by Article 5 of the Commercial Code.
82. The issuance of bearer shares is permissible under Eritrean law, as per Article 325 of the Commercial Code. In addition, under Article 347 of the Commercial Code, corporate bodies may be directors of a company. As of July 2024, 43 310 (natural and legal persons) business organisations had been registered in Eritrea. Out of these 43,310 active licenses, only 402 are registered legal persons from the Business Licensing Office record:

Type of Legal Person	Number	Percentage (%)
General Partnerships	29	7.3%
Limited Partnerships	9	2.2%
Companies Limited by Shares	18	4.5%
<i>Private Limited Companies</i>	<i>346</i>	<i>86%</i>
Total	402	100%

83. The Ministry of Trade and Industry, through the Business Licensing Office, is the responsible authority for the registration of legal persons carrying out commercial activities in Eritrea pursuant to the Commercial Code. However, all business entities before they register need to get a permit from their regulator and tax clearance issued by the Inland Revenue office. The Inland Revenue also maintains a record of identification data of all individuals with shares in the company incorporated in Eritrea.

International context for legal persons and arrangements

84. Eritrea has negligible integration into the global economy, but for the few foreign-owned companies in the mining sector. When investing in mining sector in Eritrean, foreign mining companies are required to partner with the government.

Other types of legal persons

85. In Eritrea, associations are recognised as legal persons. These were created pursuant to the Civil Code and were founded mainly for delivering social services. The National Police and Security Forces Command is responsible for registering associations created in Eritrea. The Ministry of Labour and Social Welfare plays an oversight role mainly for trade unions, the Association of War Disabled, women association, youth association, the deaf and the blind association to name but a few. Relief and Charitable or such other associations that are independent of Government are currently not permitted to operate in Eritrea.

Overview of legal arrangements

86. There is currently no legal or regulatory framework which recognises legal arrangements in Eritrea.

1.4.6 Supervisory arrangements

87. The BE and the FIU (not yet operational) are the AML/CFT supervisors⁵ for all financial institutions, except for microfinance (at the nascency stage and a programme under the Ministry of Finance and National Development) which is in the process of being regulated by the BE. The programme voluntarily applies AML/CFT requirements such as having policies on KYC when establishing business relationships and carrying out transactions (see IO.4 for details). There is no designated AML/CFT supervisor for accountants, and lawyers.
88. Based on risk and materiality in the context of Eritrea, the AT placed emphasis most heavily on commercial banks; moderately heavily on MVTs; and less heavily on bureau de change, microfinance, insurance company and the DNFBPs sector. VASPs do not operate in Eritrea.

1.4.7 International cooperation

89. To facilitate international cooperation and exchange of information on AML/CFT, Eritrea ratified the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988 (Vienna Convention) in 2002 and the United Nations Convention Against Transnational Organized Crime, 2000 (Palermo Convention), 2000 in 2014. Eritrea is yet to accede to and ratify the UN Convention for the Suppression of the Financing of Terrorism, 1999 and the UN Convention against Corruption (Merida Convention), 2005. In addition to these international instruments, Eritrea is also party to the East Africa Police Chiefs Cooperation Organisation (EAPCCO) Agreement and Interpol but has not concluded any bilateral agreements with other jurisdictions.
90. Eritrea lacks a legal basis for MLA. Eritrea had not received nor made any request for MLA or extradition related to ML/TF during the period under review.

CHAPTER 2- NATIONAL AML/CFT POLICIES AND COORDINATION

2.1 Key Findings and Recommended Actions

Key Findings

- a. Eritrea has low ML/TF risk understanding which could be attributed to the lack of risk assessment(s) and coordination among the different competent authorities. Eritrea has identified theft and unarmed robbery, illicit trading in contraband, human smuggling and trafficking in persons as the major sources of ML threats, while conflicts in the region have been identified as the major TF threats. The magnitude/scale of the ML/TF risks have not been assessed and understood.
- b. Eritrea has no coherent risk-informed AML/CFT Strategy in the absence of ML/TF risk assessment and coordinated efforts to develop and implement policies and strategies largely due to the recency of the National Task Force (which includes FIs and DNFBPs) and lack of capacity across the AML/CFT regime. As a result, the Authorities could not demonstrate the extent to which the objectives and activities of the competent authorities prioritise the existing or evolving risks. Additionally, no mechanisms are in place to cooperate and coordinate efforts to combat ML/TF/PF risks.
- c. Eritrea has identified, through legislation, the high-risk situations (e.g., large and unusual or complex transactions, PEPs and business relationships and transactions from high-risk countries) for which enhanced due diligence measures should be applied. The FIs and DNFBPs have not identified any specific ML/TF risks outside of those defined by the law. There are no exemptions nor simplified measures for any circumstance as Eritrea required FIs and DNFBPs operating in the country to apply the full scope of the AML/CFT requirements.
- d. No activities have been undertaken by competent authorities to raise ML/TF awareness in the private sector.

Recommended Actions

Eritrea should:

- a. Conduct ML/TF risk assessment(s) and use the findings to enhance ML/TF risk understanding of the competent authorities.
- b. Commence and prioritise mechanisms for competent authorities to co-operate, co-ordinate and exchange information domestically with each other concerning the development and implementation of the AML/CFT/CFP policies and activities.
- c. Coordinate AML/CFT policies and activities based on the results of risk assessment(s), to justify the application of enhanced or simplified measures or exemptions, and resource allocation to competent authorities.
- d. Ensure that the priorities, objectives and actions of competent authorities are aligned to the risks identified and implemented in a coordinated manner. Use ML/TF risk assessment results, once completed, to raise awareness for the private sector.

91. The relevant Immediate Outcome considered and assessed in this chapter is IO.1. The Recommendations relevant for the assessment of effectiveness under this section are R.1, 2, 33 and 34, and elements of R.15.

2.2 Immediate Outcome 1 (Risk, Policy and Coordination)

2.2.1 Country's understanding of its ML/TF risks

92. **Overall, Eritrea has low ML/TF risk understanding. This could largely be attributed to the lack of assessment(s) of its ML and TF risks necessary to promote ML/TF risk understanding.**
93. In respect of ML threats, Eritrea identified the predicate offences it considered to generate the most proceeds, namely, theft and unarmed robbery, illicit trading in contraband, human smuggling and trafficking in persons. However, Eritrea could not demonstrate the magnitude/scale of the proceeds and the way they could be laundered. Eritrea relied on national crime statistics and case studies which do not cover ML since Eritrea has not investigated and prosecuted a single ML case (see IO.7 for details). For instance, the information could not demonstrate the nature and level of the major sources of the proceeds, the vulnerable sectors, the values of the proceeds generated and laundered.
94. In respect of TF threats, Eritrea focuses more on terrorism than its financing, with particular emphasis on the activities associated with the conflicts in relatively close jurisdictions and the threats in the region. As at the time of the onsite mission, no TF case was identified and investigated (See IO.9 for details).

2.2.2 National policies to address identified ML/TF risks

95. **Eritrea has no effective, risk-focused AML/CFT policies and strategies to address the risks it faces.** Eritrea expresses its national AML/CFT policies through legislative and institutional frameworks which set out the AML/CFT mandates of the competent authorities.
96. In 2014, Eritrea enacted its first-ever AML/CFT law and subsequently issued Other Enforceable Means (OEMs) such as Directives and Notices which covered: (a) AML/CFT requirements to reporting institutions, (b) designated and provided powers of supervisors and law enforcement agencies, and (c) provided the legal basis for the FIU. While Eritrea took further AML/CFT legislative reforms in 2018, they still fell short in most of the foundational FATF requirements such as ML and TF offences, entity risk assessment, CDD, RBA, TFS on TF and PF, and MLA making it difficult to adequately address the risks it faces.
97. Due to the lack of resources, most of the measures have not been implemented or have been implemented to a negligible extent. For instance, Eritrea has no operational FIU (See IO.6) and LEAs have not pursued any ML or TF case during the period under review (See IOs 7 and 9, respectively). Overall, Eritrea's AML/CFT system has not addressed the identified ML/TF risks.

2.2.3 Exemptions, enhanced and simplified measures

98. **In the absence of any ML/TF risk assessment, Eritrea has not demonstrated that it has developed and implemented a risk-based framework to AML/CFT measures across the board.** The AML/CFT legislation does not require FIs and DNFBPs to conduct entity ML/TF risk assessments for RBA.
99. **Enhanced measures:** Large and unusual or complex transactions, PEPs, and business relationships and transactions from high-risk jurisdictions have been identified by law as posing high-risk situations for which enhanced measures should be applied. FIs and DNFBPs have not identified the products/services, clients, delivery channels and geographical risks which pose high risks for which enhanced measures should be applied.
100. **Simplified measures:** Eritrea has not identified specific situations to which simplified measures should be applied nor has given the reporting entities the discretion to do so on proven low risk.

Currently, reporting entities are not obliged to conduct entity risk assessment to apply mitigating measures commensurate with the risks identified in respect to their products/services, clients, delivery channels and geography.

101. **Exemptions measures:** Eritrea has not identified situations to which the FATF measures apply but could in part or in whole be exempted based on proven low risk.

2.2.4 Objectives and activities of competent authorities

102. **The priorities, objectives and activities of competent authorities are not aligned with national policies and strategies in the absence of ML/TF risk assessment(s) and AML/CFT policies in Eritrea.** Although some competent authorities shared their strategic and operational plans, the extent to which the activities were aligned with the prevailing risks and AML/CFT policies could not be demonstrated. Most of their activities and plans could not be implemented due to a lack of resources or could not be commenced in the absence of designated/operational institutions. For instance, Eritrea has no operational FIU (see IO.6 for details), has not designated a supervisor for DNFBPs (see IO.3 for details), and has no legal basis for MLA and TFS (see IOs. 2, 10 and 11 for details).

2.2.5 National coordination and cooperation

103. Eritrea established the National Technical Task Force (NTF) on AML/CFT in June 2023, chaired by the Ministry of Finance and National Development, to coordinate the development and implementation of AML/CFT in the country. The NTF has broad representation from the relevant competent authorities and private sector participation. Its membership comprises of representatives from the Ministries of Justice, Foreign Affairs, Trade and Industry, National Police and Security, Bank of Eritrea, the Office of the Attorney General, FIU and financial institutions (in Eritrea, all FIs are state-owned). The mandates of the Task Force include: (a) preparing the country for its mutual evaluation; (b) preparing and drafting the strategy for the national risk assessment; (c) evaluating and identifying whether ML (and associated predicate offences), and TF offences are properly investigated and prosecuted; and (d) proposing strategies for preventing, detecting and combating ML, TF and PF. Given the recency of the NTF, the extent to which competent authorities cooperate and coordinate the development and implementation of policies and activities to combat ML/TF/PF could not be established.

2.2.6 Private sector's awareness of risks

104. Eritrea is yet to identify and assess its ML/TF risks essential for the private sector's awareness of ML/TF risks. Competent authorities such as the BE and the FIU (not yet operational) have not conducted awareness-raising/outreach activities for the private sector. Although the private sector (FIs) is part of the National Task Force, they demonstrated a limited awareness of ML/TF risks.

Overall Conclusion on IO.1

ML and TF risk are understood to a negligible extent across the competent authorities. Eritrea identified ML threats associated with theft and robbery, human trafficking, migrant smuggling and illicit trade in contraband. The nature and extent of the proceeds generated and laundered have not been assessed and understood. Eritrea has not coordinated efforts on risk assessment, nor developed or implementing risk-informed AML/CFT policies and activities, due to the recent establishment of the NTF on AML/CFT. As a result, the competent authorities could not demonstrate that their priorities, objectives and actions are aligned to the risks identified. Eritrea has not carried out ML/TF risk awareness/outreach activities to the private sector. Overall, Eritrea has underdeveloped ML/TF risk understanding and a low level of coordination in its AML/CFT system.

Eritrea is rated as having a low level of effectiveness for IO.1.

CHAPTER 3. LEGAL SYSTEM AND OPERATIONAL ISSUES

3.1 Key Findings and Recommended Actions

Key Findings

Immediate Outcome 6

- a. The FIU has not commenced its core functions. Eritrea started the process of setting up the FIU in 2014 and tasked 5 officers who are not well trained to fully operationalise it. However, there are no concrete plans, timelines and dedicated budget in place.
- b. No outreach activities on its powers and functions have been undertaken by the FIU to the reporting entities (i.e., statutory reporting obligations) and LEAs (i.e., access to and use of financial intelligence) in preparation for the commencement of its operations.
- c. LEAs have not demonstrated access and use of financial intelligence to trace assets and develop evidence for ML/TF investigations. The LEAs have not made effort to access the information in the STRs identified and held by banks for possible ML/TF since the FIU has not commenced its operations.
- d. The FIU has no coordination and cooperation mechanisms in place or plans to implement on access to information held by the competent authorities, feedback on cases/typologies to the LEAs and to the reporting entities on the usefulness of their report/typologies or even plans to do so, in preparation for the commencement of the operations of the FIU.

Immediate Outcome 7

- a. Eritrea has major technical compliance deficiencies in R.3: criminalisation of ML offences particularly the definition of the proceeds of crime and predicate offences. While Eritrea has designated ML and predicate offences investigative authorities, they lack ML risk understanding and adequate operational capacity including financial, human and technical to effectively identify, investigate and prosecute ML cases.
- b. As at the time of the onsite visit, LEAs had neither identified, investigated nor prosecuted ML cases, despite a significant number of successful investigations and prosecutions of predicate offences.
- c. While there are statistics on the types of predicate offences investigated (which appear consistent with risk profile), there is no information on the types of predicate offences prosecuted and the values of the proceeds from the predicate offences investigated and prosecuted, making it difficult to determine the proportion of the proceeds and consistency with the risk profile of the country.
- d. Overall, the LEAs do not routinely conduct parallel financial investigations when pursuing predicate offences, to trace assets and identify ML cases particularly since they do not access and use the STRs identified and held by banks due to the FIU not being operational.

Immediate Outcome 8

- a. Overall, Eritrea uses its confiscation regime mainly for restitution or seeking compensation for victims of crime, and has broadly recovered property to a negligible extent.
- b. Eritrea has major legal and institutional deficiencies impacting the effective implementation of provisional and confiscation measures. Eritrea has not demonstrated that it pursues confiscation of criminal property as a policy objective. There is low operational capacity since all agencies with asset recovery mandate, including management and disposal, are either not yet operational (i.e., the FIU and Central Seizure and Confiscation Agency) or have limited resources and procedures in place (i.e., National Police, BE and Customs Department).
- c. Eritrea has confiscated property at home from domestic predicate offences, while no provisional and confiscation measures were ever applied on criminal property related to ML or from any crime with links domestically or outside, or based on a request from another jurisdiction. Given that Eritrea is virtually not linked to the global financial system, the lack of criminal property with extra-territorial links appears consistent with the risk profile of the country.
- d. The legal and institutional frameworks for implementation of the declaration system for cross-border movement of cash is inadequate, and have been implemented to a limited extent. Eritrea does not cover cross-border movement of BNIs and cash through other transportation means such as cargo or mail. Further, the Customs Department and Postal Office lack effective detection systems, with manual search by officers mostly applied as shown by five cases through mail seizures and three undeclared cash at ports of entry and exit during the period under review.
- e. There are no sanctions applied to determine the extent to which sanctions for violation of the declaration system are dissuasive, proportionate and effective despite having identified a few cases of violations related to mailing of cash at ports office and undeclared cash at ports of entry and exit.
- f. Since Eritrea has low ML/TF risk understanding, and no AML/CFT policies and priorities, consistency with confiscation of criminal property is negligible.

Recommended Actions

Immediate Outcome 6

Eritrea should:

- a. Complete the process of setting up and operationalising the FIU through: (i) provision of adequate resources including human and budget, (ii) having secure IT infrastructure, and (iii) ensuring its operational independence.
- b. Ensure that the FIU (once operational), sets out the form and manner for filing of STRs and directs the banks and the BE to promptly submit, in a secured manner, the STRs already identified and held by them.
- c. Ensure that the FIU conducts awareness/outreach activities on its powers and functions to the reporting entities (working with the supervisors) and the LEAs.

- d. Ensure that the FIU produces and disseminates useful operational and strategic analysis to support the operations of the LEAs on ML/TF. This should include training of staff to carry out operational and strategic analysis.
- e. Ensure that the FIU accesses a broad range of reliable and independent sources of information, including having secure mechanisms for accessing information held by competent authorities.
- f. Ensure that the FIU works closely with the LEAs on access and use of FIU's financial intelligence and implement domestic cooperation mechanisms (e.g., MoUs) to secure the information. This should include regular feedback on the usefulness of the intelligence in tracing assets and developing ML and TF evidence.
- g. Ensure that the FIU (once operational) works with the FIs and DNFBP supervisors to implement awareness/outreach activities on STR obligation, particularly high-risk entities and put in place a feedback mechanism.
- h. Ensure that the FIU (once operational), maintain comprehensive statistics receipts and analysis of transactions reports by reporting entities and dissemination and use of financial intelligence by LEAs.

Immediate Outcome 7

Eritrea should:

- a. Address the technical compliance deficiencies in ML offence and powers of LEAs consistent with R.3 and R.31, respectively.
- b. Build the capacity (i.e., adequate resourcing and skilling) of the LEAs with a mandate to identify, investigate and prosecute ML and associated predicate offences. This should include: (i) developing and providing training on parallel financial investigations and special investigative techniques, and (ii) training on the powers of the FIU, access and use of its financial intelligence, once operations commence.
- c. Ensure that LEAs conduct parallel financial investigations to identify, investigate and prosecute ML cases consistent with the country's risk profile.
- d. Conduct capacity-building of the judiciary, including on the adjudication of ML cases.
- e. Ensure that sanctions for commission of ML offence and associated predicate offences are dissuasive, proportionate and effective.
- f. Develop and implement a system to maintain comprehensive statistics and case studies on investigations, prosecutions and convictions concerning ML and associated predicate offences.

Immediate Outcome 8

Eritrea should:

- a. Address the technical compliance deficiencies in R.4 (provisional and confiscation measures) and R.32 (cross-border movement of cash and BNIs).
- b. Prioritise confiscation as a policy objective by developing and implementing national AML/CFT policies and priorities consistent with the ML/TF risk profile of the country. This should involve adequately resourcing and skilling the key asset recovery LEAs, including OAG, Customs Department and National Police, and

commencing the operations of the FIU and the Central Seizure and Confiscation Agency.

- c. Provide clarity through mechanisms, such as procedures and standard operating processes on the roles of the FIU and the BE, concerning the freezing of bank accounts.
- d. Once operational, the Central Seizure and Confiscation Agency should develop and implement asset management and disposal mechanisms.
- e. Put in place a mechanism for the FIU and other competent authorities to access cross-border cash and BNI information, particularly where there is suspicion of ML and TF.

Ensure that asset recovery agencies maintain comprehensive statistics and case studies on the implementation of provisional and confiscation measures.

105. The relevant Immediate Outcomes considered and assessed in this chapter are IO.6-8. The Recommendations relevant to the assessment of effectiveness under this section are R.1, R. 3, R.4 and R.29-32 and elements of R.2, 8, 9, 15, 30, 31, 34, 37, 38, 39 and 40.

3.2 Immediate Outcome 6 (Financial Intelligence ML/TF)

Background

106. Under the AML/CFT Proclamation 175/2014, Eritrea provided the legal basis to set up a Financial Intelligence Unit (not yet operational) as the central agency for the receipt and analysis of suspicious transactions and other information, and dissemination of the results of the analysis to LEAs to trace assets and develop evidence for ML/TF investigations. Eritrea also issued Directive 1/2018 setting out the organisational structure of the FIU which has five Divisions, namely, Legal affairs, Analysis and Compliance, Assets, Registry Regulatory, as well as three support Divisions, namely Information Technology, Finance and Human Resources. At the time of the on-site visit, the FIU had 5 staff members, against a requirement of ten (10), involved in the process of setting up the FIU. The staff has not received any specific training on the core functions of the FIU. In addition, there was no dedicated budget for the FIU at the time of the onsite visit. Below is the structure and the staff complement of the FIU.

Table 3.1: FIU Staff as of July 2024

Division	Post fulfilled	Needs
Director	01	
Secretariat	01	
Regulatory	03	01
Analysis and compliance		01
Assets		01
Legal affairs		01
Registry		01

Source: FIU

3.2.1 Use of financial intelligence and other information

107. Since the FIU is not yet operational, there is no evidence of access to and use of the FIU's financial intelligence and other information by the LEAs to support ML/TF operational needs. Similarly, the LEAs have not demonstrated the extent to which they used their powers or mechanisms to access and use financial intelligence to trace assets and develop evidence for identification of ML/TF cases (for details, see IOs 7, 8,9).

3.2.2 STRs received and requested by competent authorities

108. Since the FIU is not yet operational, no STRs and other reports have been received in the absence of mechanisms on the manner and form of reporting. For STRs, the banks have identified suspicious transactions but could not submit them since the FIU was not operational. The FIU has directed the banks (and all reporting entities) and the BE (in possession of one STR) to keep the identified STRs secured for later submission once the FIU is ready and submit monthly statistics on the identified STRs to it.

3.2.3 Operational needs supported by FIU analysis and dissemination

109. Since the FIU is not yet operational, no proactive and reactive disseminations could be made to support the operational needs of the LEAs.

3.2.4 Cooperation and exchange of information/financial intelligence

110. Since the FIU is not yet operational, there is no evidence of cooperation and exchange of financial intelligence with domestic competent authorities especially the LEAs for ML/TF purposes.

Overall Conclusion on IO.6

Eritrea has no operational FIU despite having the legal basis to set up an FIU since 2014. Beyond the 5 staff currently setting up the FIU, no plans were shared with the AT on the process to fully operationalise the FIU, including having a dedicated budget and training plan. The LEAs have not demonstrated that they accessed and used financial intelligence from the FIU or on their own powers to identify potential ML and TF cases nor cooperated with the FIU on ML/TF investigations.

Therefore, Eritrea is rated as having a low level of effectiveness for IO 6.

3.3 Immediate Outcome 7 (ML investigation and prosecution)

3.3.1 ML identification and investigation

111. **LEAs do not routinely prioritise ML as demonstrated by the fact that no ML case has been identified and investigated, despite a considerable number of investigations of predicate offences. LEAs have no adequate operational capacity to pursue parallel financial investigations to identify and investigate ML while investigating the predicate offences.** Further, LEAs have not accessed and used the information in the STRs identified and held by banks but not yet submitted to the FIU (since it is not yet operational), or used their own powers and mechanisms to obtain financial intelligence to identify and investigate proceeds of crime and ML offences.

112. The responsibility for investigating ML and other proceeds-generating predicate offences lies with the designated LEAs (see R.30 for details) with the ***National Police and Security Intelligence Agency*** as the primary agency for investigating ML and other criminal offences. The National Police issued a ‘Comprehensive Investigation Process Guide’ in January 2015, which was revised in 2022, outlining the priority offences (namely, terrorism, corruption, drug trafficking, robbery and transnational organised crimes). In cases of terrorism and corruption, maximum resources are allocated at all levels from departments down to police stations. However, the Guide does not prioritise ML and most of the predicate offences identified as posing major ML threats. In addition, there are other relevant agencies i.e.: the ***Immigration Department*** monitors breach of immigration laws; the ***Inland Revenue Department (IRD)*** identifies tax crimes for referral to the Police Force for criminal investigation; the ***Customs Department*** monitors contraband-related crimes, including illegal cross-border cash movement; and the Office of the ***Attorney General (OAG)***, while having the authority to investigate any type of crime, often delegates investigations to the police or intelligence units, focusing primarily on prosecutions.

Table 3.2: Predicate Offences Investigated (2019-2023)

Predicate Offence	2019	2020	2021	2022	2023
Corruption and Bribery	20	0	1	1	7
Fraud	123	71	68	112	133
Unarmed Robbery and Theft	570	40	523	706	823
Contraband	-	6	1	4	11
Migrant Smuggling	15	-	3	10	15
Hawala	7	2	4	6	6
Tax Crimes	3	4	-	5	2
Forgery	48	27	22	20	35

Source: OAG

113. Table 3.2 above indicates the range of predicate offences investigated from 2019 to 2023. Migrant smuggling, robbery and theft (with a sharp increase in 2023) and fraud are the most frequently investigated crimes. However, there are no figures on the proceeds generated to determine potential ML threats which could determine whether the LEAs routinely pursue proceeds generated and ML cases. The predicate offences pursued appear consistent with the general criminal activities identified by Eritrea for which the Authorities have identified as the major sources of ML threats, though the potential magnitude/scale of the proceeds that have been, or could be, laundered have not been determined by Eritrea (See IO.1 for more details). Furthermore, there is no information on the surge in some predicate offences identified and investigated.

3.3.2 Consistency of ML Investigations and Prosecutions with Threats and Risk Profile

114. **Eritrea has not investigated and prosecuted ML consistent with its threats and risk profile primarily because the LEAs do not routinely pursue ML in predicate offences cases.** Further, it was difficult to determine the extent to which the predicate offences pursued were consistent with the risk profile of the country since Eritrea does prioritise the tracing of proceeds that have been, or could be, laundered and to develop evidence to identify, investigate and prosecute ML, coupled with insufficient statistics and case studies on the prosecution and conviction of predicate offences (see tables 3.2 above and 3.3 below). Although not based on risk assessment and the magnitude/scale of the proceeds of predicate offences, Eritrea views illicit trade in contraband, theft and unarmed robbery, human smuggling and human trafficking as the major ML threats.

3.3.3 Types of ML Cases Pursued

115. **The OAG is responsible for reviewing investigations and overseeing prosecutions, but its ability to direct ML identification or investigation and to prosecute all types of ML cases (e.g., self-laundering, standalone ML or third-party laundering) has not been tested.** There has not been any ML prosecution in Eritrea since there has not been any ML identified and investigated at the time of the onsite visit.

Table 3.3: Prosecutions and Convictions of Predicate Offences (2019-2023)

Year	Prosecutions	Convictions
2019	452	335
2020	127	117
2021	352	308
2022	753	492
2023	926	583

Source: OAG

116. As indicated in 3.3 above, LEAs pursue predicate offences without prioritising the proceeds generated and laundered. The 2019-2023 data on prosecutions and convictions show a steady increase in predicate offences, further demonstrating that the LEAs do not prioritise ML crimes relative to the threat of predicate offences. Further, there are no statistics on the types of predicate offences prosecuted and convictions to determine the extent of the ML threat posed and reduced.

3.3.4 Effectiveness, Proportionality, and Dissuasiveness of Sanctions

117. **Except for the sanctions on the predicate offences in table 3.3 above, Eritrea has not applied sanctions for ML in the absence of ML prosecution.** There were no sufficient statistics and case examples on the types of the predicate offences and the sanctions issued on the predicate offences, making it difficult to assess the extent to which Eritrea applies dissuasive, proportionate and effective sanctions.

3.3.5 Use of Alternative Measures

118. **Eritrea has not applied alternative criminal justice measures where conviction of ML was not feasible during the period under review.** While Eritrea has laws that allow for the use of alternative criminal justice measures including pursuing the initiated ML cases with some other crimes and asset recoveries, the ML offence and operational capacities of key institutions have undermined the effective pursuit of ML cases.

Overall Conclusion on IO.7

Eritrea has material deficiencies in powers and operational capacities of the designated LEAs for the investigation and prosecution of ML and predicate offences. Although Eritrea has successfully prosecuted predicate offences, though with limited tracing of the proceeds, there has been no ML case identified, investigated and prosecuted for any period. This shows that the LEAs do not routinely prioritise parallel financial investigations to identify ML cases primarily due to the lack of capacity. In addition, Eritrea has not applied alternative measures to pursuing ML when doing so would not be feasible. Overall, Eritrea has not pursued predicate offences and ML consistent with the ML threats and risk profile of the country.

Eritrea is rated as having a low level of effectiveness for IO.7.

3.4 Immediate Outcome 8 (Confiscation)

3.4.1 Confiscation of proceeds, instrumentalities and property of equivalent value as a policy objective

119. **Eritrea has to a limited extent demonstrated that it has been able to pursue confiscation of criminal property as a policy objective which could be attributed to the deficiencies in the legal and operational capacity frameworks.** Eritrea expresses its asset recovery policy through legislation (i.e., the Criminal Procedure Code 185/1961, the AML/CFT Proclamation 175/2014 and the Penal Code 158/1957) and institutional frameworks, namely, the Central Seizure and Confiscation Agency, the FIU, the BE and the National Police and Security Forces Command. However, Eritrea has limited institutional capacity, as key agencies are either not operational or lack measures to recover, manage and administer assets. For instance, the FIU and the BE have not put mechanisms in place or applied the provisional measures in respect of bank accounts related to ML and TF. Eritrea has not commenced the operations of the Central Seizure and Confiscation Agency, an institution legally mandated to manage and administer property subject to recovery. Overall, the key institutions mandated to identify, trace, seize or freeze property subject to confiscation include National Police and Security Force Command, the OAG, the BE, the FIU and the courts.
120. When pursuing confiscation measures, the Authorities usually place emphasis on restitution measures so that a victim who may have been unlawfully deprived of the property is placed in the same place, he or she would have been, before the crime. Case examples from the OAG demonstrate that where the crime was committed and the investigators managed to seize assets, these would first be used as exhibits in court and upon a successful conviction of the defendant, the assets would be returned to the victims and in other instances, the assets vested in the Government where it would not be possible to trace the rightful owners. However, there was no evidence during the period of assessment to demonstrate the Authorities' ability to pursue confiscation of property of corresponding value which might have been hampered by lack of legal basis permitting the same.

3.4.2 Confiscation of proceeds from foreign and domestic predicates, and proceeds located abroad

121. **Eritrea has not recovered criminal property related to ML or from any crime within or outside of the country or based on a request from a foreign jurisdiction. By contrast, Eritrea has confiscated criminal property involving a domestic predicate offence.** The Case box 3.1 below illustrates the extent to which competent authorities have identified, traced, seized and confiscated criminal property from domestic predicate offences related to unarmed robbery and theft, bribery and corrupt practice, and forgery and fraud.

Box 3.1 Prosecutor v John Doe and Others

Charge: Falsification, Corrupt Practices in violation of Article 32/393(1), 393, 386, 425(1) and 437 of the TPCE.

Summary of the accusation

The accusation was the use of travel documents which the accused had no legal right to hold and use. Falsified documents were sold to different individuals by John Doe 1 who obtained them unlawfully from Jane Doe. Three of the remaining of the accused were charged with buying and using the aforementioned documents. The fifth accused was charged with using his connection to influence the release of one of the accused from prison and receiving Nakfa 5000.00 for the act.

Prosecution and trial

The investigators found in the persons of the accused travel documents which were falsified, and an interview with the accused resulted in the confession of the alleged crime. The prosecutors charged the first accused with 7 counts of forgery, the second accused with 3 counts of falsification and 3 counts of use of falsified documents, the third with 12 counts of use of falsified documents and 1 count of soliciting corrupt practices, the fourth with 1 count of use of falsified documents. The fifth accused was charged with 1 count of corrupt practice.

Sentence

After reviewing the evidence, the Court found the accused guilty of the respective counts and imposed the sentence of 1 year of imprisonment on the 1st accused, 1 year of imprisonment on the 2nd defendant, 9 months of imprisonment on the 3rd accused, 6 months of imprisonment on the 4th defendant.

The 1st defendant was further required to pay 43,400.00 Nakfa which were the proceeds of his crime, to the government treasury. The 2nd defendant was required to pay 1,500.00 nakfa.

The falsified documents which were still in use were seized by the police as exhibits and ordered to be destroyed. The order was carried out.

122. Furthermore, the case example shows that the Authorities do not pursue property of corresponding mainly due to the legal gap. This is because despite receiving Nakfa 5000.00 (USD 333.33) there was no order against the 5th accused that would enable confiscation of this amount or assets of its equivalent value. Equally, Eritrea could not demonstrate whether and how the Nakfa 43,400.00 (USD 2893.33) was ever recovered as part of confiscation order under the Transitional Penal Code 1957.

123. The total value of the goods confiscated was USD 7 370 782.00 as illustrated in the table below.

Table 3.5: Values of contraband goods confiscated, 2020 - 2023

N°	Year	Amount [\$]
1	2020	1 136 081
2	2021	2 234 378
3	2022	1 741 587
4	2023	2 258 736
	TOTAL	7 370 782

Source: Eritrean Authorities

124. During 2020-2024 period, the Customs Department confiscated contraband, namely, petrol, construction material, clothing, car spare parts, foods, cleaning detergents, medicine, electronics and alcoholic beverages at the ports of entry and exit, mainly at Asmara International Airport and Massawa Port at Red Sea. While these are the busiest ports of entry and exit, the detection equipment such as scanning machines especially for carry-on bags are insufficient but mitigated by manual searches.

125. Authorities indicated that mail sent to and from Eritrea is weighed to assess its integrity, in order to determine whether it contains only correspondence or any prohibited items. If suspected of any violation, the post is directed to customs officers, and it is opened in front of the sender or recipient. However, this may not be an efficient method of examining parcels as some concealed items may go undetected.

03.4.3 Confiscation of falsely or undeclared cross-border transaction of currency/BNI

126. **Eritrea confiscates undeclared currency in cash at ports of entry and exit to a negligible extent. This is because there are inadequate detection systems such as scanners to effectively identify, seize and confiscate falsely declared or undeclared cash or BNI.** The Customs Department oversees the administration of the declaration system through a form issued by the BE. The form is handed out at the ports of entry and exit for all travelers entering or leaving the country with more than 10,000.00 USD or equivalent in cash to declare. However, the records kept by the Customs Department are insufficient to determine incoming or outgoing cases, the amounts declared and not declared, and methods used by the offender and used by the officials to detect the offenders. Further, there is insufficient information on any enforcement action taken necessary to determine sanctions applied and the extent to which they were dissuasive, proportionate and effective.

127. Statistics show that between 2021 to July 2024, three cases of undeclared cash were identified out of 176 declared cases, though it was unclear whether these were incoming or outgoing cases. Further, there were no typologies shared to identify the methods used to circumvent the declaration system. There are no statistics or case studies for other ports of entry and exit, particularly Massawa Port at the Red Sea on falsely declared or undeclared cash and BNIs.

128. The Authorities identified a few cases of cash being mailed between 2019 and 2023, involving negligible amounts, despite the absence of any law prohibiting the sending of cash through the postal service. From the discussions held with the authorities, there are limited detection systems with most of the officers conducting manual sifting of the mails to identify cash sent cases. It is

unclear whether the Authorities such as the LEAs carry out further investigation and, if so, under what circumstances including the criteria for prioritising cases.

Table 3.6: Cash seizures sent through mail, 2019 - 2022

Year	Number	Amounts involved
2019	1	\$ 300
2020	0	0
2021	1	\$1000
2022	2	\$26 & £26
2023	1	€200

3.4.4 Consistency of confiscation results with ML/TF risks and national AML/CFT policies and priorities

129. There are no sufficient statistics and case examples for preservation orders, seizures and confiscation to determine the extent to which the actions taken by the Authorities in respect of confiscation outcomes are consistent with the ML/TF risks of the country. Further, Eritrea has no AML/CFT policies and set of priorities against which to test for alignment with the measures. This could be attributed to the lack of AML/CFT strategies/policies to inform priority setting and resource allocation for the competent authorities to pursue confiscation as a policy objective.

Overall Conclusion on IO.8

Eritrea has major deficiencies in its legal and operational capacity for effective implementation of the provisional and confiscation measures as a policy objective. The key institutions responsible for asset recovery are either not operational or lack the capacity to effectively detect, freeze, seize, and confiscate criminal assets. Eritrea has implemented a declaration system for cross-border movement of cash at or in excess of USD 10, 000 but it does not cover BNIs or other cross-border transportation means, such as mail. There are no adequate detection systems for illegal cash couriering at the major ports of entry and exit, including the Asmara International Airport and Massawa Sea Port at Red Sea. As a result, Eritrea has implemented confiscation measures against criminal property to a limited extent.

Eritrea is rated as having a Low level of effectiveness for IO.8.

Chapter 4. TERRORIST FINANCING AND FINANCING OF PROLIFERATION

4.1 Key Findings and Recommended Actions

Key Findings

Immediate Outcome 9

- a. Eritrea has major technical compliance deficiencies with R.5 (TF offence) and R.31 (LEA powers) which impacted on the ability of the key LEAs to fully apply measures to ensure that the broad scope of the TF offence can be identified, investigated and prosecuted effectively.
- b. Eritrea does not prioritise TF in its counter-terrorism strategy, while the designated agencies (i.e., National Police and Security Forces Command, FIU and OAG) are not fully resourced for TF, have limited TF risk understanding and apply CFT priorities inconsistent with the country's TF threats. There are no coordination mechanisms for sharing of intelligence and other information on TF matters among the different designated competent authorities.
- c. Eritrea has not identified, investigated and prosecuted a TF case which is inconsistent with the TF risk profile of the country. This is because TF is not well understood and pursued as a priority and the key LEAs have limited CFT capability.
- d. Eritrea has no TF conviction and therefore the extent to which sanctions are proportionate, dissuasive and effective could not be determined.

Immediate Outcome 10

- a. Eritrea lacks the legal frameworks, procedures and mechanisms necessary for implementing TFS without delay effectively. Eritrea has also not developed a coherent TF risk assessment to identify high-risk sectors and guide TFS efforts accordingly. This gap hinders compliance with UN Security Council Resolutions 1267 and 1373, leaving the country vulnerable to TF risks. This also impedes its ability to deprive terrorists of funds and other assets.
- b. Eritrea lacks a dedicated institutional structure to oversee and enforce TFS measures, which leads to inconsistent application among FIs and DNFBPs and public institutions. This inconsistency also stems from insufficient guidance and a lack of supervisory oversight.
- c. Eritrea's approach does not differentiate between types of NPOs based on TF risk. The absence of a TF risk assessment for NPOs means that oversight efforts are not focused on high-risk areas.

Immediate Outcome 11

- a. Eritrea does not have both a legal and institutional framework, nor has it come up with any mechanism to implement TFS relating to PF.
- b. Supervisory authorities have not issued instructions and guidelines and have not established mechanisms to implement the relevant TFS, nor do they monitor the entities under their supervision in this regard.
- c. UNSCRs on combating PF are not being implemented adequately by all national bodies, financial institutions, and DNFBPs, and this is due to the absence of comprehensive procedures, instructions or mechanisms and the awareness of TFS in relation to PF is weak.

Recommended Actions

Immediate outcome 9

Eritrea should:

- a. Address the technical compliance deficiencies identified in R.5 and R.31 to enable the Authorities to pursue the full scope of the TF offence and apply appropriate sanctions.
- b. Based on proper TF risk understanding, revise the Counter-Terrorism Strategy to adequately embed TF as a priority objective and ensure that the actions of the relevant competent authorities responsible for identification, investigation and prosecution (i.e., the National Police and Security Forces Command, OAG and the FIU (once operational)) are aligned to the Strategy and the country's TF risk profile. This should include clear goals for identifying the raising, storing and moving and use of funds and other assets for TF, and ensuring TF risks are understood and mitigated.
- c. Build the operational capabilities of the different relevant competent authorities such as the National Police and Security Forces Command, the FIU and OAG to identify, investigate and prosecute cases through provision of resources (i.e., budget, skilled personnel and technical tools) and specialised training financial investigations and prosecution of TF cases.
- d. The National Police and Security Forces Command should develop and implement mechanisms (e.g., MoU and liaison officers) with the FIU (once operational) for access and use of financial intelligence on TF disseminated, spontaneously or upon request, by the FIU.
- e. Maintain statistics and case studies on identification, prosecution and conviction of TF cases to enable assessment of the effectiveness of the CFT regime.

Immediate Outcomes 10

- f. Eritrea should develop and adopt legislation and/or mechanisms that enable effective implementation of TFS related to UNSCR 1267 and its successor resolutions, and UNSCR 1373 (or TF-related TFS) without delay to ensure compliance with international standards. This framework should be designed to facilitate rapid response to TF threats, aligning with FATF and UN requirements. This should include mechanisms for monitoring high-risk transactions to facilitate the timely identification and freezing of TF assets.
- g. Eritrea needs to establish a specialised agency or designate and empower an existing body to oversee and enforce TFS measures. The designated agency and other relevant authorities should provide guidance to FIs and DNFBPs, ensuring uniform understanding and compliance across sectors.
- h. Eritrea should identify a sub-set of NPOs which fall within the FATF definition and thereafter, conduct a TF risk assessment of the NPO sector. Based on this assessment, authorities should identify high-risk NPOs and implement targeted oversight measures and outreach activities, focusing resources on areas more susceptible to TF misuse.

Immediate Outcome11

- i. Eritrea should establish a legal, regulatory, and institutional framework to monitor, supervise, and effectively implement TFS related to proliferation.
- j. Competent authorities should monitor and ensure that reporting entities are complying with the obligations relating to implementation of targeted financial sanctions related to PF.
- k. Eritrea should raise awareness among the relevant authorities, as well as the FIs and DNFBPs, in relation to their obligations to implement the UNSCRs related to combating PF through training courses and workshops in this area and build awareness and provide guidance on targeted financial sanctions related to PF to reporting entities, specifically with regards to sanctions evasions.

130. The relevant Immediate Outcomes considered and assessed in this chapter are IO.9-11. The Recommendations relevant for the assessment of effectiveness under this section are, 5–8.

4.2 Immediate Outcome 9 (TF investigation and prosecution)

4.2.1 Prosecution/conviction of types of TF activity consistent with the country's risk-profile

131. **Eritrea does not prioritise TF cases but focuses on terrorism which is inconsistent with its TF risk profile. As a result, Eritrea has not prosecuted a single TF case.** This could be attributed to: (i) low TF risk understanding in the absence of a TF risk assessment, (ii) Anti-terrorism strategy focuses on terrorism and not its financing, (iii) designated anti-terrorism agencies are not adequately resourced, and officers are not well trained to combat TF, and (iv) major technical compliance deficiencies in the criminalisation of the TF offence. Eritrea prioritises terrorism threats over its financing, focusing on the conflicts in its region.

4.2.2 TF identification and investigation

132. **Eritrea has not identified and investigated TF cases for reasons identified in 4.2.1 above.** The National Police and Security Forces Command, operating under the National Security Agency and its Counter-terrorism Branch, is mandated to investigate TF and associated crimes. The Branch is in the early stages of improving its TF risk understanding and capacity to identify and investigate TF cases. The Command has resource constraints including human, financial, and technical resources, which affects its ability to identify and investigate TF. Currently, the Authorities rely on traditional investigative techniques, such as arrests, questioning, crime scene investigation, and basic search and seizure operations. Notably, there is inadequate experience in applying special investigative techniques such as covert or specialised operations, surveillance, controlled delivery, and undercover activities, which are often essential for successfully investigating TF cases. The designated LEAs do not pursue parallel financial investigations in terrorism cases. For instance, the designated LEAs have not accessed the information in the STRs identified and held by the banks to identify potential TF cases.

133. Eritrea has not applied international mechanisms to pursue TF cases, despite being in a region with active terrorism and TF threats associated with illicit trading in contraband, human smuggling and human trafficking and illegal cross-border movement of cash. There is no evidence of the designated agencies making requests to or receiving requests from foreign counterparts on TF matters (see IO.2 for details).

4.2.3 TF investigation integrated with - and supportive of - national strategies

134. Eritrea has not integrated TF investigations within the national counter-terrorism efforts, nor has the country used TF investigations to support broader counter-terrorism goals, such as identifying and designating terrorists, terrorist organisations, and financial support networks. In terms of policy integration, the Comprehensive Investigation Guide of the National Security Agency prioritises terrorism investigations and not its financing within its broader counter-terrorism strategy. This gap could partly be attributed to the lack of coordinated TF intelligence-sharing mechanisms among Eritrean authorities.

4.2.4 Effectiveness, proportionality and dissuasiveness of sanctions

135. Eritrea has not applied sanctions for TF offence in the absence of successful TF prosecution. Eritrea has major technical compliance deficiencies on sanctions for TF and overall TF offence (see R.5 for further details).

4.2.5 Alternative measures used where TF conviction is not possible (e.g. disruption)

136. Although Eritrea can apply alternative measures where TF conviction is not possible, there is no statistics and case studies to demonstrate implementation. Under Eritrean law, alternatives to formal TF convictions including deportation, pursuing other offenses, deradicalisation, etc are available through other criminal justice or regulatory measures that may be applied to disrupt TF activities when prosecution is not feasible. However, the Eritrean LEAs have not yet applied these measures in practice to any potential TF activities. During discussions, some of law enforcement officials noted that the country has limited effective measures in place to disrupt TF activities. Without TF cases, it remains unclear how these alternative measures might work in practice to mitigate TF threats.

Overall Conclusion on IO.9

Eritrea has significant deficiencies in the legal and institutional frameworks on identification, investigation and prosecution of TF. There are no mechanisms to coordinate the exchange of intelligence and other information on TF matters. The key LEAs have low TF risk understanding and capacity to effectively carry out their mandate. The Anti-terrorism strategy does not prioritise TF more than it does terrorism. In the absence of any TF case, it has not been possible to assess the extent to which alternative measures and sanctions could be applied in Eritrea.

Eritrea has achieved a low level of effectiveness for Immediate Outcome 9.

4.3 Immediate Outcome 10 (TF preventive measures and financial sanctions)

4.3.1 Implementation of targeted financial sanctions for TF without delay

137. Eritrea has no implementing regime for targeted financial sanctions (TFS) for TF without delay. There is no legal basis to implement UN Security Council Resolutions 1267 and 1373, no designated institution responsible for oversight, and no procedures or processes for identifying, freezing, or prohibiting access to assets of designated individuals or entities. While some FIs indicated that they applied TFS voluntarily, there are no supervisory findings, and no positive or negative matches have been reported. Given the absence of legal, institutional, and procedural frameworks, Eritrea is not implementing TFS, and its effectiveness is almost non-

existent. Additionally, FIs and DNFBPs are not supervised or monitored for TFS obligations due to the lack of a supervisory body (see Immediate Outcome 3 for details).

4.3.2 Targeted approach, outreach and oversight of at-risk non-profit organisations

138. **Eritrea’s framework for the oversight and regulation of non-profit organisations (NPOs) displays significant weaknesses, particularly regarding the prevention of terrorism financing (TF) risks within the sector. Eritrea has not implemented risk-based measures to prevent the misuse of NPOs for TF, nor has it provided outreach or guidance to help NPOs understand and mitigate potential risks.** In the context of Eritrea, non-profit organizations (NPOs) that are likely to fall within the scope of FATF Recommendation 8 (R.8) include associations working for persons with disabilities, although the country has not comprehensively identified the subset of NPOs that meet the FATF definition. All active associations are domestic, with no foreign NPOs operating in the country. Most NPOs receive primary funding from the government, and foreign donations require approval from the National Security Agency.
139. Though most of the civic organisations’ activities do not fall within the FATF scope of NPOs, Eritrea monitors all NGOs regardless of their risk profile. While this centralised control may limit some TF risks, it is not a substitute for a risk-based approach. Eritrea has not conducted a TF risk assessment for the associations. Without these foundational steps, Eritrea lacks an understanding of the specific vulnerabilities of NPOs, making it difficult to assess which organisations may be at higher risk of TF abuse.
140. Authorities do not exercise oversight on the NPOs specifically for TF including sanctions implementation, leaving the sector without effective oversight or mechanisms to detect and respond to TF risks. The regulatory framework for NPOs is based on the Transitional Civil Code, which applies a uniform “one-size-fits-all” model, failing to differentiate organisations by their level of TF risk in order to implement a targeted risk assessment and risk-informed regulatory measures that align with FATF standards.

4.3.3 Deprivation of TF assets and instrumentalities

141. **In Eritrea, there have been no cases of TF-related asset freezing under TFS regimes, which could partially align with the country’s terrorism financing risk profile.** However, the absence of such actions may also reflect a lack of effective monitoring mechanisms and insufficient institutional commitment to implementing TFS. Without a system in place to routinely assess and freeze assets potentially linked to terrorism financing, it is challenging to determine whether Eritrea’s inactivity in this area is a result of genuine low risk or simply a failure to detect potential TF activities.
142. The lack of asset freezing measures is further compounded by the overall absence of a legislative and institutional TFS framework. Even if potential TF risks were identified, Eritrea lacks effective mechanisms and processes to take swift action. Therefore, even if Eritrea may currently be classified as a low risk, its inability to actively freeze assets limits its capacity to respond effectively should TF threats emerge in the future.

4.3.4 Consistency of measures with overall TF risk profile

143. **Eritrean authorities demonstrated a limited understanding of the specific terrorist financing risks facing the country, even though they exhibit a strong understanding of regional terrorism threats.** Without this foundation, the country’s TFS measures - or the lack thereof - are not grounded in an understanding of national or sector-specific TF risks. This inconsistency with

the risk profile suggests that Eritrea's TFS implementation lacks the necessary focus on high-risk areas or sectors vulnerable to TF misuse.

144. The absence of a TF risk assessment or risk-based approach means that Eritrea's limited TFS actions are not effectively directed towards areas of potentially higher risk, such as certain NPOs. This disconnect undermines the ability of Eritrean authorities to detect, prevent, and respond to TF activities comprehensively, leaving potential vulnerabilities unaddressed. Furthermore, this lack of alignment with risk-based approach also means that Eritrea may struggle to demonstrate that its TF prevention strategies are proportionate and targeted according to the actual risk landscape.

Overall Conclusion on IO.10

Eritrea does not have a legislative framework for the implementation of TFS without delay and this has resulted in poor implementation. FIs and DNFBPs do not fully understand TFS on TF due to limited supervisory actions including outreach and guidance. Eritrea has inadequate NPO regulation, and has not identified the subset of NPOs posing TF risks and applied risk-based monitoring. No sanctions have been applied for violation of NPO rules.

Eritrea has achieved a low level of effectiveness for Immediate Outcome 10.

4.4 Immediate Outcome 11 (PF financial sanctions)

4.4.1 Implementation of targeted financial sanctions related to proliferation financing without delay

145. Generally, the same weaknesses pertaining to the implementation of TFS relating to UNSCR 1267 and 1373, also apply to implementation of TFS relating to UNSCRs on proliferation financing (PF). Eritrea does not have legal and institutional frameworks in place, as well as mechanisms to facilitate the implementation of TFS related to PF without delay. There are no procedures/mechanisms for competent authorities and reporting entities in Eritrea to implement their TFS on PF obligations.

4.4.2 Identification of assets and funds held by designated persons/entities and prohibitions

146. Eritrea is vulnerable to PF due to the absence of any framework to identify assets or funds of designated persons and entities, and to prevent PF transactions from being carried out. There are no administrative or voluntary mechanisms in place for reporting entities to apply measures relating to identified assets and funds held by designated persons or entities and prevent them from operating or executing financial transactions related to PF.
147. The Authorities view the identification of assets and funds held by designated persons or entities relating to PF and application of the appropriate measures as a new area on which they still need to build expertise on.

4.4.3 FIs, DNFBPs and VASPs' understanding of and compliance with obligations

148. **The FIs and DNFBPs' understanding of, and compliance with PF obligations cannot be determined as there is no legal framework setting obligations for them to comply with the implementation of targeted financial sanctions relating to PF.** None of the reporting entities in Eritrea are guided by any framework to build on internal measures allowing the implementation of TFS related to PF. The institutional framework to check on compliance with the implementation of such measures will need to be included in the current supervisory framework on AML/CFT. The DNFBPs have not started complying with other obligations of the AML/CFT legal framework in

general, therefore they have not yet taken any initiative to comply with the UNSCRs relating to the combating of PF on their own.

4.4.4 Competent authorities ensuring and monitoring compliance

149. **There is no mechanism for monitoring compliance with the implementation of TFS relating to PF.** There were no actions in practice with respect to the DPRK List and the various competent authorities in Eritrea were not undertaking compliance monitoring for PF due to the absence of the appropriate legal and institutional frameworks for the implementation of TFS relating to PF.

Overall Conclusion on IO.11

There is no legal or institutional framework in Eritrea to enable the implementation of TFS relating to PF. The authorities and reporting entities are not implementing TFS without delay on PF. There is generally very little awareness of TFS relating to PF by the competent authorities and the reporting entities.

Eritrea has achieved a low level of effectiveness for Immediate Outcome 11.

5 PREVENTIVE MEASURES

5.1 Key Findings and Recommended Actions

Key Findings

Financial Institutions, DNFBPs and VASPs

- a. Eritrea subjects all FATF-designated activities for FIs and DNFBPs to AML/CFT requirements, though there are major shortcomings concerning the AML/CFT requirements and their implementation. VASPs do not operate in Eritrea. FIs comprise two banks, an insurer, an FXB, an inward money remitter, and micro-finance programme, all under state ownership and control. The sector is virtually closed from the outside financial system and is simple and less sophisticated, characterised by absence of the modern financial products and payment systems such as debit and credit cards, internet banking and automatic teller machines. For the DNFBPs, only lawyers and accountants are present in Eritrea and are required to comply with STRs and tipping off prohibition only, though the exclusion is not justified by risk assessment results.
- b. The AML/CFT law does not require FIs and DNFBPs to conduct ML/TF risk assessment and apply compliance programmes commensurate with the risks identified. That notwithstanding, FIs demonstrated a fair understanding of ML risks and AML obligations applicable to them. By contrast, the DNFBPs demonstrated a low ML risk and AML obligations understanding. Both FIs and DNFBPs showed low understanding of TF risks and CFT obligations.
- c. The FIs apply AML requirements to a certain extent, and CFT to a negligible extent. While Eritrea has prescribed PEPs, transactions and business relationships from high-risk jurisdictions and large and unusual or complex transactions as high risk for which EDD and ODD measures should be applied, the FIs could not demonstrate the extent to which they carry out the measures, especially verification of sources of income and wealth and adequate implementation of TFS, PEPs, transactions monitoring, ongoing training and BO.
- d. The FIs performed well in general CDD, recordkeeping measures, CBRs and compliance programme, including compliance officers at senior management level and performing of integrity checks and internal and external audits. For the DNFBPs, the application of the obligations is generally negligible.
- e. While the banks identified STRs, no STRs have been filed to the FIU since it is yet to commence its core operations. The banks and all reporting entities have been directed to secure the potential STRs whenever identified and send monthly statistics to the FIU for recordkeeping and access once it becomes operational. The rest of the FIs and the DNFBPs have not detected and filed STRs which could be attributed to the lack of understanding of what constitutes a suspicious transaction, poor compliance programmes and supervision.

Recommended Actions

Eritrea should rectify the technical compliance deficiencies in its preventive measures in respect of:

- a. R.1 (ML/TF risk assessment), R.6 (TFS on TF), R.10 (CDD specifically on BO), R.12 (PEPs), R.15 (new technologies), R.16 (wire transfers), R.19 (high-risk jurisdictions)

and R.22 - 23 (DNFBP preventive measures). Where appropriate, this could include issuing guidance to promote understanding and application of the measures.

- b. subjecting the DNFBPs to appropriate coverage of AML/CFT requirements based on risk determinations.
- c. requiring FIs and DNFBPs to conduct ML/TF risk assessments of their products/services, clients, delivery channels and geographical risks and using the results to implement risk-based compliance programmes.

FIs and DNFBPs should:

- d. Based on future ML/TF risk assessment(s), work closely together with the BE and the FIU (once operational) to promote their understanding of ML/TF risks and AML/CFT obligations, including through risk-informed outreach and guidance. This should include having ongoing staff training based on the roles.
- e. Develop granular ML/TF risk understanding through entity risk assessments by focusing on products/services, clients, delivery channels and geographical risks and use the understanding for RBA.
- f. Based on the results of their ML/TF risk assessments, apply enhanced measures, simplified measures or exemptions.
- g. Improve transactions monitoring and detection systems to identify and promptly STRs. This should include: (i) remediation of the STRs held by banks, and (ii) working with the FIU to: (a) implement a secure manner and form of reporting, (b) develop red flags, (c) set up regular feedback mechanisms and (d) conduct outreach activities on STRs.

150. The relevant Immediate Outcome considered and assessed in this chapter is IO.4. The Recommendations relevant for the assessment of effectiveness under this section are R.9-23, and elements of R.1, 6, 15 and 29.

5.2. Immediate Outcome 4 (Preventive Measures)

Background

151. The AML/CFT Proclamation 2014 (as amended) is the main piece of legislation setting out the broad AML/CFT obligations for FIs. The DNFBPs are only required to comply with STR and prohibition of tipping off obligations, which is a major deficiency. Except for lawyers and accountants, the remaining DNFBP activities by casinos, real estate agents, notaries (exist as government employees) and DPMS have no active presence in Eritrea. In accordance with Article 5 of the Commercial Code of Eritrea, VASPs are legally not recognised as business activities and there is no known operation of VASPs in the country to comply with R.15. Considering the relative materiality and risk in the context of Eritrea, the relevant sectors were weighed as follows for focus:

- a. **Most heavily weighted** - Banks
- b. **Moderately weighted** - MVTs (only inward remittances are allowed in Eritrea)
- c. **less heavily weighed** - Foreign Exchange Bureau (FXB), insurance, accountants, lawyers and micro-finance.

152. The findings on IO.4 are based on interviews with and information obtained from the private sector and public sector representatives such as Supervisors, LEAs and FIU. Eritrea has a small presence of FIs characterised by two (2) commercial banks, an insurance company, a foreign exchange bureau (FXB), an MVTs provider, a development bank and a microfinance programme financed by and under the Ministry of Finance. In the context of Eritrea, all FIs were interviewed. Eritrea has negligible presence and activities of DNFBPs for which interviews were carried out, these include a lawyer and an accountant. No interviews could be carried out with casino (prohibited by law), TCSPs (no presence as a profession while TSPs do not operate since there are no trust activities), real estate agents (registered as business activities at company registry but inactive) and DPMS (no presence). The analysis is largely on financial institutions, particularly the two commercial banks and a financial institution providing foreign currency exchange and remittance for inward service business since outward remittances are prohibited in Eritrea.

5.2.1 Understanding of ML/TF risks and AML/CFT obligations

153. Eritrea does not require FIs and DNFBPs to conduct risk assessments to determine the risk exposure on their clients, products/services, delivery channels and geographical risks. The FIs and DNFBPs have not conducted ML/TF risk assessment essential for risk understanding and application of commensurate AML/CFT obligations. Overall, the FIs demonstrated a better understanding of ML risks and AML obligations than TF risks and CFT obligations. For the DNFBPs, the understanding of ML/TF risk and AML/CFT obligations are underdeveloped.

Financial Institutions

154. **Banks:** The banks demonstrated a moderate understanding of ML risks and applied commensurate AML obligations. The banks elaborated on their understanding of the ML risk exposure associated with the less sophisticated nature of the financial services they provide in terms of the nature/type of their customers, products/services, geographical footprint and their delivery channels. They further demonstrated appreciation of the low ML risk exposure arising from their limited integration with the international financial system, as well as vulnerability on account of the lack of automation of transaction monitoring systems at branch levels for ease of real time monitoring of transactions.

155. **Insurance:** The only insurance company in Eritrea demonstrated a good ML risk understanding and, to a large extent, applied AML obligations. The insurance sector had a good understanding of the low ML risk exposure posed by life insurance products for which contributions are from the source with most clients being members/staff of Government Ministries, Employee associations and Government institutions.

156. **Foreign currency exchange:** Eritrea has one foreign currency exchange bureau (FXB) which demonstrated a good understanding of the ML risks and AML obligations that apply to it. The FXB demonstrated a good understanding of ML risk citing the potential ML risk arising for predicate offense of counterfeit and therefore, they apply customer identification measures including identifying PEPs and transactions of clients from high-risk countries when conducting foreign exchange business.

157. **Money or Value Transfer Service (MVTs) Provider:** There is one MVTs provider (same company as FXB) which operates as an agent acting for international MVTs Providers and applies the AML/CFT obligations as guided by the BE and the requirements of the international principals. The MVTs provider demonstrated understanding of the ML risks in their business activities as low

based on account of the type of clients they serve which are all Eritreans in the diaspora and from geographical locations which are low risk for ML and the type of service they provide which are only inward cross border remittance of significantly low values of amounts below USD300.

158. The FIs demonstrated awareness of TF risks, but in the absence of entity risk assessment, they could not demonstrate the extent to which their clients, products, services and delivery channels, as well as geographical location could be abused for TF.

159. The Eritrean Savings and micro-credit programme under the Ministry of Finance demonstrated low levels of understanding of ML/TF risks and AML/CFT obligations.

Designated Non-Financial Businesses and Professionals (DNFBPs)

160. The DNFBPs lacked an understanding of ML/TF risk and AML/CFT obligations that apply to them which could be attributed to the lack of ML/TF risk assessment and supervisory actions.

5.2.2. Application of risk mitigating measures

161. To some extent, FIs apply AML measures based on the ML risks identified, though there is no associated obligation to conduct ML/TF risk assessment. To some extent, the FIs applied the controls based on the risks understood particularly in respect of those identified by law as high risk, namely; (i) complex, unusual or large transactions relationships or transactions with high-risk countries; (ii) PEPs; (iii) non-resident customers such as those staying in the country for less than one year or those in short visit or travel; and (iv) companies that have shares in bearer form; for which the FIs are required to apply enhanced due diligence such as obtaining senior management approval before establishing the business relationship with the customer, taking reasonable measures to identify the source of wealth and fund and other assets of the customer, and conducting increased and on-going monitoring of the customer. The supervisory findings from the BE were inconclusive about the extent to which the requirements were applied commensurate with the risks identified. CFT obligations are applied to a negligible extent largely due to the low TF risk understanding.

162. The DNFBPs do not apply controls consistent with the risks identified which could be attributed to the sector not being subject to monitoring and most of the preventative measures. Only STRs and prohibition of tipping off obligations apply to the DNFBPs. There is no evidence of compliance with the two requirements in the absence of any STR filed and supervisory findings.

Financial Institutions

163. To some extent, FIs apply AML controls across their business relationships irrespective of the risk profile related to the nature of clients and transactions they offer. However, the mitigation measures are not risk based in nature, and the effectiveness of the application of mitigation measures could not be supported by supervision information. The mitigation measures include policies and procedures such as KYC at onboarding of customers, terminating business relationships and processing occasional or one-off transactions. The FIs implement compliance programmes which provide, to some extent, prevention and detection measures to mitigate and manage ML risk of customers and transactions by use of transaction monitoring to identify unusual or suspicious transactions, obtaining approval from the senior compliance Officers before opening accounts of legal persons (which are deemed riskier than sole proprietor/individual accounts), undertaking

KYC on all inward cross border wire transfers and, reasonable information sharing across the FIs in the context of Eritrean financial system.

164. The insurance company, which is the sole insurer for life insurance in Eritrea, to a larger extent applies mitigating measures for preventing and detecting ML which include KYC procedures at onboarding and payout using national identity document and court decisions where disputes on the rightful claimant arise.
165. The Eritrean Savings and micro-credit program applied ML mitigation measures across all saving and lending activities based on group savings and providing credit to solidarity groups (of 3-4 persons from the same district or locality), individual loans only granted to small businesses permitted by the Ministry of Trade and Industry and possess valid business licences and government employee loans whose deductions are from salary.
166. There is limited application of CFT obligations largely because of poor TF risk understanding and supervisory actions.

Designated Non-Financial Businesses and Professionals (DNFBPs)

167. DNFBPs interviewed apply ML/TF mitigating measures to a limited extent which could be attributed to the lack of supervision of the DNFBPs Sector and inadequate risk understanding.

5.2.3. Application of Customer Due Diligence (CDD) and Record-Keeping requirements (including beneficial ownership and ongoing monitoring requirements)

168. To a larger extent, the FIs have taken measures to apply CDD and record keeping measures on the financial services they offer including due diligence measures at on-boarding customers and during transactions (including foreign exchange transactions and inward money remittances), including ongoing due diligence procedures. The records are kept for at least 10 years following the termination of a business relationship or the conclusion of a single transaction. Furthermore, the FIs apply on-going due diligence to a large extent.
169. The DNFBPs apply CDD measures to a certain extent, though there are no requirements to do so, and generally they obtain basic information and data of the client. The sector performs limited activities and does not engage in transactions except for preparation of legal documents for company creation or real estate transactions. Other DNFBP activities are not present in Eritrea.

Application of Customer Due Diligence

170. The banks largely apply their AML obligation on CDD measures before and during the process of establishing a business relationship and when conducting a transaction, either one-off or with an existing relationship.
171. For residents, the banks require full names, national identification (ID) documents, physical address, telephone number, and proof of resident of the customer. It was not clear how verification of source of income for high-risk clients is conducted prior and during onboarding.
172. For legal persons, banks require information on the name of entity, legal form, proof of existence, the powers that regulate and bind the legal persons, letters authorising signatories to the account of the legal person to open the account, identification documents of the account signatories and inland revenue clearance forms. Specifically, for Private Limited Companies (PLCs) the banks identify shareholders with 25% and above capital or voting rights. However, the application of the specific

CDD measures required for legal persons regarding identification and verification of beneficial ownership (BO), is not clearly understood by the banks. The banks did not take reasonable steps to establish BO in respect of a business relationship or transaction with legal entities partly on account of the bank's lack of distinguishing a BO and a shareholder or Board of Directors of a legal person. However, in the majority cases, the legal persons in Eritrea are State-owned entities and most PLCs are small family-owned entities with insignificant business activity and simple ownership structures which limit their vulnerability to hiding criminals.

173. The insurance company applied general CDD measures to a larger extent, although there is no AML/CFT provision for the insurance company to apply CDD for beneficiaries of life insurance policies. Nevertheless, the insurance company applied measures which identify policy holders (using national ID), and it is a mandatory requirement at the time of enrolment for the policy holder to provide the name of the nominated beneficiary/beneficiaries of the policy. For cases where beneficiaries have not been nominated, the insurance company obtains the beneficiary/beneficiaries name after court declaration. The Group life product which constitutes the largest proportion of the insurance life policies, are mainly from Government institutions.
174. The foreign exchange bureaus apply CDD measures to a large extent. The bureau demonstrated that for all foreign exchange transactions customers are required to show evidence of valid entry permits (visa), valid passport and national identification documents, a copy of which are retained by the bureau. In cases of transactions above USD10,000, the FXB requires additional evidence of the customers' declaration of the foreign currency at the port of entry and exit (e.g., airport) before the foreign currency exchange transaction can be completed.
175. The Eritrean savings and micro-credit program promote access to financial services and products which is mostly used by low end of the financial consumers mainly in the rural areas. They apply CDD measures including national identification documents, and vetting by village administration to confirm the locals identify and residence.
176. The MVTS apply customer due diligence on customer transaction money remittance activities including obtaining identification documents of the customer, residential address and verifying the Money Transfer Control Number (MTCN). Furthermore, cash payments to customers are restricted to ERN 5,000. The MVTS demonstrated conducting enhance due diligence for customer in receipt of remittances of more than ERN 5,000. The MVTS in such cases have remitted the funds directly to the recipient's bank account in a commercial bank or for recipient without bank accounts, the MVTS has supported the recipients in opening bank account to which the funds are is remitted.

Business refused on account of incomplete customer due diligence.

177. The FIs do not open an account, commence business relations or perform a transaction; or terminate the business relationship for failure to complete customer due diligence satisfactorily. This was demonstrated during an incident in which the FI refused to perform a transaction on account of the customer's failure to provide additional CDD information on a transaction. Except for this one example, there are no supervisory findings to conclude that businesses generally refuse business on account of incomplete customer due diligence.

Designated Non-Financial Businesses and Professionals (DNFBPs)

178. The DNFBPs apply CDD measures to a limited extent on account of the lack of regulatory obligations for DNFBPs to do so and the simple nature of the transactions carried out by the DNFBPs. The DNFBPs interviewed apply basic CDD measures which include identifying the customers/clients and identities of shareholders and managers of PLCs when they are involved in

the preparation of Memorandum of Associations and when drafting sales agreements during transactions such as sales agreement for real estate.

On-going Due Diligence

Financial Institutions

179. The banks conduct ongoing monitoring to some extent using semi-automated systems. Typically, each branch has an in-house software which records and stores customer transactions. The Compliance Officers then physically compare transaction records with physical documents at each branch. For instances, where a customer undergoing due diligence is at a non-domicile branch, the branch issues a letter of notification across all the branches seeking to obtain the physical CDD documents of the concerned customer to complete ongoing monitoring. The requesting branches can obtain the customer records typically within 3 to 4 days after the letter has been issued. However, because of the lack of automation, the banks are aware that they might not be able to adequately prevent and detect suspicious and unusual transaction which potentially arises from smurfing incidents and take necessary measures to mitigate the risks including by enhanced scrutiny of the large transactions or a series of transactions that might appear linked.

Designated Non-Financial Business and Professionals

180. The DNFBPs do not apply on-going customer due diligence on account of lack of understanding of the measures.

Record Keeping

181. The FIs apply record keeping requirement adequately with the records kept for more than 10 years for both domestic and international transactions following completion of the transaction, after termination of the customer relationship or after the date of the occasional transaction. The records are stored as physical copies except for the FXBs and MVTS where records are kept centrally at the Head Office, banks initially keep the records at the branches and transfer the records to the Head Office within a week for central record keeping. The records include information on CDD, and all correspondences and appear readily available to LEAs within one week upon request. In the absence of supervisory findings, it could not be confirmed the extent to which the records are accessed by and useful to the competent authority.

5.2.4 Application of Enhanced or Specific Measures

182. FIs are required to apply EDD or specific measures in respect of high-risk customers such as PEPs and complex, unusual or complex transactions. Further, FIs have not undertaken ML/TF risk assessments to identify the scenarios to which EDD measures apply, however, the FIs identified the following as high-risk clients, transactions and services; PEPs, correspondent banking activities (e.g. trade finance and letter of credits), designated high risk countries for which counter measures should apply and wire transfers.

Politically Exposed Persons (PEPs)

183. The FIs apply specific EDD measures on PEPs and on-going due diligence on the identified PEPs. To identify Foreign PEPs, FIs obtain full names, work permits, diplomatic passports, letters from employers, and alien identification documents (IDs) required to establish a business relationship or occasional transaction. Domestic PEPs are identified physically (i.e., face to face recognition) at bank branches within their locality ("Zoba" level) through the privileged banking services or the use of national IDs which indicate the persons professions. However, the FIs do not identify customers or beneficial owners who are or have been entrusted with a prominent function by an international organization on account absence of legislative requirements to do so. Furthermore,

although the FIs indicated that the domestic PEPs are publicly known within a particular Zoba, the FIs are unable to identify domestic PEPs from a branch in a particular “Zoba” carrying out a transaction or opening an account in another “Zoba”.

184. All transactions with FIs involving identified domestic or foreign PEPs require Senior Management approvals. However, the FIs did not demonstrate applying measures to establish the source of wealth and funds of PEPs, conducting enhanced ongoing monitoring and mechanism of identifying existing PEPs and the PEP’s family or persons closely associated with the PEP.
185. DNFBPs do not have obligation to apply specific CDD measures on PEPs and have demonstrated limited understanding and application of PEP measures.

Correspondent Banking

186. Eritrea has one commercial bank which is a respondent bank to five (5) correspondent banks (CBs) and largely applies EDD measures. The bank obtained approvals from senior management when establishing all correspondent banking relationships and conducting annual on-going monitoring of the business relationships, as well as, understanding the respective AML/CFT responsibilities of the institutions with which the bank has established correspondent banking relationships.

New technologies

187. In the context of Eritrea, the FIs provide simple and basic services through walk-ins and do not require reliance on new technologies. For instance, the FIs in Eritrea do not provide services through automated teller machines, internet banking, mobile/cell phone money transfer or credit or debit cards largely due to the sector being less sophisticated and the country generally having internet connectivity challenges.

Wire Transfers

188. **Banks:** The banks apply the requirement to ensure that the cross-border wire transfers/transactions are accompanied by accurate and complete originator and beneficiary information. The originator information collected includes the names, addresses, amount, unique references and date of transaction and beneficiary verification. Additionally, the banks undertake risk management measures to execute, reject or suspend wire transfers with incomplete originator or beneficiary information. This was demonstrated during an incident where a bank rejected and returned to the originating bank an inward cross-border wire transfer on account of incomplete information and the transaction being a person-to-person inward wire transfer which was inconsistent with the BE regulations.
189. The MVTS is authorised to conduct only inward cross-border wire transfers for person-to-person transactions only ensures that inward wire transfers are accompanied by accurate and complete beneficiary information such as customer Identification Document (ID), physical address and telephone number as well as the originator information using the Money Transfer Control Number (MTCN) before making the pay outs.

Targeted financial sanctions (TFS) relating to Terrorism Financing (TF)

190. FIs apply TFS on TF to a certain extent despite Eritrea not having the legal requirements and national mechanisms for implementation (see IO.10 & IO.11 for further details).
191. In practice, the banks, FXB and MVTS conduct sanctions screening against the list which they directly download from the UNSCR website which also applies to account opening for new customers and when conducting wire transfer transactions for existing customers. Furthermore, the banks could not apply UNSCR sanctions screening at the central office and branch levels on account of a lack of automated customer files at branch-to-branch and central office-to-branch levels.

192. The rest of the FIs including the insurance company and micro-finance demonstrated limited level of implementation of TFS on TF. The client base of these entities consists predominantly of resident Eritrean nationals, with no financial transactions conducted either inward or outward.
193. The MVTs provider relies on the sanctions screening platform/systems provided by the partner international MVTs to conduct the TFS screening on transactions as part of the contractual arrangement with the principals. The transactions are screened by the remitting partner abroad, though the extent of compliance with the TFS on TF obligations could not be independently verified through inspection findings.
194. The DNFBPs are neither aware of nor do they apply TFS related to TF in practice.

Higher-risk Countries identified by FATF

195. In general, Eritrea's financial sector has limited integration with the global financial system and provides basic financial services less attractive to foreign transaction payments. By law, there are no obligations for FIs to apply EDD or countermeasures on business relationships and transactions emanating from high-risk jurisdictions. The FIs apply EDD measures on high-risk countries following the list obtained from the FATF website. Generally, the banks stated that they do undertake EDD on transactions and business relationships from high-risk jurisdictions including obtaining senior management approval and applying counter measures on jurisdictions which have been prohibited by the FATF as they do not/prohibit transactions with such jurisdictions. However, no specific details on the EDD applied were shared and in the absence of supervisory findings, it could not be confirmed.
196. For the MVTs, virtually all the inward cross border wire transfer are observed from customers in the diaspora. However, due to the absence of supervision, the level of compliance with this specific requirement could not be conclusively determined. The DNFBPs generally do not understand the risks arising from high-risk jurisdictions and do not apply EDD or counter measures on such countries. This could be attributed to the absence of a legal obligation for DNFBPs to apply such measures and monitoring.
197. The remaining FIs including the insurance company and non-bank financial institutions demonstrated a limited level of implementation of EDD measures against transactions and business relationships emanating from higher-risk countries.

5.2.5 Reporting obligations and tipping off

198. As at the time of the onsite visit, no STR was filed by the FIs and DNFBPs. However, banks identified potentially suspicious transactions but could not submit the report because the FIU was not operational.
199. The STRs identified by the banks are safely kept for future submission to the FIU when it becomes operational on the instruction of the FIU. The banks only submit monthly statistics to the FIU on the number of such reports identified. The banks apply adequate tipping off prohibition requirements and no known cases of tipping off violations were reported by the banks, though it is difficult to conclude for the overall sector in the absence of supervisory findings. At the time of the onsite visit, fifty-seven (57) STRs were identified by banks over the period 2020 to 2024.
200. The FXB and MVTs providers have not identified STRs. The entities consider cash transactions above a certain threshold reports as suspicious transactions without establishing any suspicion. This could be attributed to a lack of understanding of suspicious transaction and absence of and guidance on the reporting obligations.

5.2.6. Internal controls and legal/regulatory requirements impeding its implementation

201. The FIs have implemented internal controls to a larger extent and there are no legal or regulatory impediments such as financial secrecy against implementation. The FIs have established Compliance Management Functions which are led by Compliance Officers at the Senior Management level. The compliance programme is implemented through the FI's internal policies, procedures and controls including AML/CFT or KYC policies and procedures manual to prevent ML/TF, data privacy and disclosure policy, anti-bribery and corruption policy, and key risk indicators to detect cash threshold and unusual transactions and policies for termination of business relationships as well as for processing of occasional or one-off transactions. The governance structure includes the Senior Management Committee which receives potential STRs from Compliance Officers who also notify the FIU of the STRs statistics. The AML/CFT roles at branch levels have been assigned to the branch managers who undertake the flow of information between the branches and the Head Office. However, since the bank branches are not integrated to each other and with the Central Office, this might potentially delay monitoring as an ML/TF mitigation measure. The FXB and MVTs provider undertakes monthly reporting in which reviews of transaction databases and compliance incidence reports are assessed for corrective measures.
202. All the staff of the FIs are recruited by a centralised government recruitment office. The officers are vetted for competence, qualifications, and criminal record. The FIs conduct compulsory general and ongoing AML/CFT training for all staff on areas such as the scope definitions and stages of ML/TF, ML/TF methods, red flags and preventive measures, reporting of suspicious transactions obligations, PEPs management, prohibition of tipping-off and identification of beneficial ownership/complex structures.
203. All the FIs have internal and external audit functions the FXB and MVTs provider being the only activities subjected to AML/CFT audits. The last audits were in 2021 and there were no reasons provided for discontinuation. Furthermore, it was not clear when the audits would resume. The FIs have teams of internal inspectors who conduct surprise checks and reviews both at the Head Office and the branches to establish adherence with internal controls for ML/TF.
204. There is no evidence of prohibition, or hindrance, to exchange of information between FIs and competent authorities because of financial secrecy laws.

Overall Conclusion on IO.4

The financial sector (less sophisticated) in Eritrea is state-owned and dominated by banks (most important), distantly followed by MVTs (moderately important) with the rest of the FIs and DNFBPs (only lawyers and accountants are active) given less attention. All FIs and DNFBP (except for lawyers and accountants, others do not exist) activities present in Eritrea are covered by the AML/CFT legislation. The requirements apply largely to FIs while only STR and tipping off prohibition obligations apply to DNFBPs. The AML/CFT obligations have major shortcomings, and are not well understood and applied in the absence of obligations for ML/TF risk assessment essential for risk understanding, which has resulted in the FIs and DNFBPs not adequately applying the measures in a risk sensitive manner. Overall, FIs and DNFBPs have applied the AML/CFT obligations to a negligible extent, particularly about STRs, BO and EDD, PEPs, TFS and ongoing training. The AML/CFT regime is seriously undermined by the inability of FIs and DNFBPs to file STRs identified due to the absence of operational FIU for filing of STRs.

Eritrea is rated as having a low level of effectiveness for IO.4.

Chapter 6. SUPERVISION

5.2 Key Findings and Recommended Actions

Key Findings

Financial Institutions

- a. In Eritrea, the State owns and controls the entire financial sector. BE applies adequate market entry rules for fit and proper processes for banks, MVTS, foreign exchange bureau and insurance aided by the fact that the sector is owned and controlled by the government. The BE applies stringent procedures on private minority shareholders (in the insurer) and key personnel for fit and proper needs.
- b. Overall, the BE understands ML risks to a certain extent while TF risk is understood to a negligible extent. This could be attributed to the absence of ML/TF risk assessments, access to entity risk assessment and inadequate supervisory actions necessary to provide sufficient information for developing adequate ML/TF risk understanding. The FIU as AML/CFT supervisor of FIs is not yet operational.
- c. The BE has no risk-based framework to adequately supervise and monitor AML/CFT compliance by its supervised entities. Instead, the BE applies rules-based approach to monitor compliance using prudential determinations. The scope and details of the inspections and follow-up were limited on AML/CFT compliance to demonstrate compliance patterns. For the few violations identified, the BE applied remedial actions only. The FIU has not yet undertaken any AML/CFT inspections since it is not yet operational.
- d. The BE and the FIU (not yet operational) as AML/CFT supervisors of the FIs have not undertaken any outreach/awareness-raising activities to the sector to promote understanding of ML/TF risks and AML/CFT obligations.

DNFBPs

- e. In the context of Eritrea, only accountants and lawyers exist with their own regulators for which strong market entry rules are applied. In addition, casinos, DPMS and real estate agents, notaries and TCSP, as a profession, do not operate.
- f. Eritrea has no AML/CFT supervisor for AML/CFT compliance by the DNFBPs present in the country. As a result, there are no AML/CFT risk-based supervision frameworks for the sector.

VASPs

- g. There is no evidence of presence of VA activities or VASPs in Eritrea for which market entry requirements and AML/CFT risk-based supervision should be applied.

Recommended Actions

Financial Institutions and DNFBPs:

Eritrea should:

- a. Designate an AML/CFT supervisor with sufficient powers for DNFBPs.

- b. Provide sufficient resources (e.g., budget, skilled personnel, and technical tools) to FIs and DNFBPs supervisors to effectively supervise and enforce AML/CFT compliance.
- c. Ensure that AML/CFT DNFBPs (once designated) and FIs supervisors: (i) carry out an entity risk assessment to understand the ML/TF risk profiles, (ii) develop and implement risk-based supervision framework including entity risk categorisation, procedures/tools for inspections, monitoring and sanctions, (iii) conduct outreach and issue guidance to promote ML/TF risk understanding and AML/CFT obligations by the entities with a particular focus of high-risk entities, and (iv) provide adequate resources and skilled personnel including through training on tools related to risk assessment, inspections, monitoring and enforcement.

205. The relevant Immediate Outcome considered and assessed in this chapter is IO.3⁶ The Recommendations relevant for the assessment of effectiveness under this section are R.14, 15, 26-28, 34, 35 and elements of R.1 and 40.

Immediate Outcome 3 (Supervision)

Background

206. The FIU (not yet operational) and the BE are the AML/CFT supervisors for FIs. There is no designated AML/CFT supervisor for VASPs (no presence in Eritrea) and DNFBP (only lawyers and accountants provide insignificant services) activities in Eritrea. The country has established a micro-finance programme to increase access to financial services by the low-income population regulated under the Ministry of Finance and National Development but not yet brought under the BE supervision for AML/CFT. The licensing or registration of the DNFBPs falls under the designated government ministries. The AT placed emphasis most heavily on banks; and moderately on MVTs and less focus on the foreign exchange bureau, the life insurance company, and accountants and lawyers. The remaining DNFBPs (i.e., casinos, TCSPs, real estate agents, notaries (as state employees) and DPMS) do not operate in Eritrea.

6.2 Immediate Outcome 3 (Supervision)

6.2.1 *Licensing, registration, and controls preventing criminals and associates from entering the market*

207. **The BE has and applies market entry rules for banks and foreign exchange bureau and MVTs to a greater extent. It independently verifies the information pertaining to their directors and senior management.** Directors and senior management of the banks, MVTs provider and foreign exchange bureau are appointed by the President and the Minister of Finance and National Development, respectively. In the case of the insurance company, the BE independently verifies the information on directors who are both government appointees (the government owns 89 percent) and private sector appointees (private sector owns 11 percent). For senior management, since all FIs are state-owned and their employees are government officials, the National Human Resource Coordinating Center (government central hiring agency) vets all government officials by conducting checks on background, educational and criminal records verified by the National Police and Security Forces Command.

208. **There are no market entry rules for micro-finance which is managed by the Ministry of Finance and National Development and is being considered for supervision by the BE.** As at the time of the onsite visit, there were no violation of market entry rules identified by the BE to warrant enforcement action. As government-controlled activities, present DNFBPs (i.e., real estate agents, casinos, and DPMS do not operate in Eritrea) in Eritrea are subjected to rigorous vetting processes by their regulators.

Bank of Eritrea (BE)

209. **Banks:** The BE adequately applies fit and proper requirements on the Board of Directors and senior management of banks. The bank licensing directive/process requires a company intending to operate as a bank in Eritrea to provide a statement of certificate of criminal records, verified by the National Police and Security Forces Command, for members of the Board and senior management. However, banks are state owned in Eritrea. The Governance structures, including Boards of Directors (appointed by the president) and senior management (ministerial appointees) are considered as government appointees/employees. The BE takes reasonable measures to independently verify information of these appointees during the licensing process. If there are concerns, such are raised, and recommendations are made to the appointing authority. As at the time of the onsite visit, the BE has not made adverse findings against appointees or senior employees.
210. **Foreign Exchange Bureau and MVTs:** The BE performs fit and proper processes for foreign exchange bureau and MVTs (both activities are performed by a single entity owned and controlled by the State of Eritrea) to a large extent. The licensing directive/process for foreign exchange bureau and MVTs covers criminal checks for beneficial ownership in the case of a sole proprietorship and partnership. The process does not, however, require beneficial owners of a company to be vetted especially since the entity providing the two activities are owned and controlled by the State of Eritrea, though both are being managed in the same manner as government institutions. Instead, only the person who has been appointed by the Board to be an applicant is vetted. Like banks, the foreign exchange bureau in Eritrea is owned by the ruling party which makes the government the ultimate controller. Therefore, a similar governance structure applies.
211. The BE has not made any adverse recommendations and sanctions on the state appointments for the FIs for not meeting fit and proper considerations. During the period under review, the BE has not received and considered a new licence application for banking and foreign exchange bureau services.
212. The BE detects breaches to market entry requirements through whistle blowers. Although the authorities are of the view that, following the Currency Conversion Policy, of 2015, a negligible number of unauthorised foreign exchange dealers may exist, the presence of illegal operators and the mechanisms in place to detect such operators could not be determined.
213. **Insurance:** The National Insurance Corporation of Eritrea (NICE) ownership comprises the government and a group of private shareholders with a minority stake of 11 percent for which separate processes for fit and proper assessment are applied For the Board of Directors and senior management that are appointed by the government, the verification process is like that of banks and foreign exchange bureau/MVTs. For Board of Directors and senior management appointed by the private shareholder, the BE conducts fit and proper tests by assessing their professional qualifications, experience and criminal records verified through the National Police and Security Forces. There have been no rejections of appointments of board of directors or senior management or any license application by the BE during the period under review.

214. ***Savings and Micro Credit programme:*** The programme is established through a financial inclusion policy decision with government providing the funding at commencement stage. The members of the programme are employees of the government who are vetted by the National Human Resource Centre like any government employee.

DNFBPs Regulators

215. **Eritrea has strong market entry rules applied for the licensing of the DNFBPs activities present in the country. The regulators apply rigorous fit and proper requirements on lawyers, notaries (who are state employees), and accountants. There are no casinos, DPMS, notaries and real estate agents offering the FATF-defined DNFBP activities in Eritrea.**
216. ***Lawyers:*** The Ministry of Justice is the regulator of the profession. It conducts fit and proper assessments which cover professional qualifications, experience, good conduct and integrity of the applicant and criminal checks verified through National Police and Security Forces. The review of the fit and proper test is done on annual renewals.
217. In the last five years, the Ministry of Justice has not identified any violation and therefore no license was revoked. For detection of breaches, the Ministry relies on complaints from the clients and monitoring through annual renewals.
218. ***Accountants:*** Market entry requirements are conducted by the Auditor General (AG) as the regulator of the profession in Eritrea. For certification of an accountant, a committee consisting of (senior) representatives from the Office of AG (regulatory body), the Ministry of Finance and Development (reviews compliance with accounting international standards, the Ministry of Education (reviews educational qualifications), the Ministry of Trade and Industry (review business licensing) and the National Policy and Security Forces (verifies criminal clearance certificates) reviews the application. The AG then grants a licence which is renewable annually during which fit and proper process is applied.
219. The AG has not identified any violation and has not revoked any licenses in the last five years. However, to demonstrate the effectiveness of the licensing process, the AT considered four licenses that were revoked since 1995. In one case, the AG cancelled the license on account of failure to conduct the necessary background check on a new client, inadvertently facilitating tax evasion by the client. In another case, the licenses were revoked because of unethical behaviour, false declaration of revenue, tax evasion, unusual withdrawal of large sums from the bank and preparation of financial statements in breach of international standards.

6.2.2 Supervisors' understanding and identification of ML/TF risks

220. **The BE's understanding of the ML risks for the banking sector and the foreign currency exchange bureau is low. By contrast, the BE demonstrated reasonable ML risk understanding for the insurance and the money remittance sectors. The understanding of TF risk for all FIs is low. While the BE appreciated the fact that the sectors offered simple and basic financial services which could be less attractive to ML/TF abuse, it could not demonstrate the nature and extent of the risks in the absence of information on the risk profiles of the entities in relation to their products/services, clients, delivery channels and geographical risks.**
221. ***Banks:*** The BE demonstrated low ML/TF risk understanding for the banking sector which could be attributed to the lack of risk assessment including of the entities it regulates, and inadequate AML/CFT supervisory actions which could provide the BE with useful information on ML/TF risks facing the sector.

222. **Insurance:** For one insurance company operating in Eritrea, the BE demonstrated a good ML risk understanding and categorised it as less attractive for ML/TF abuses in terms of its insignificant materiality and the nature of the product which are largely group life insurance taken by government employees with deductions from source. While the BE view the TF risk as low, the understanding of the nature of the TF threats was not demonstrated.
223. **Foreign Exchange Bureau:** The BE demonstrated a low ML/TF risk understanding for the sector. It appears the BE focuses more on compliance with the USD 10, 000 threshold prescribed under the 2015 Directive as the basis for its ML/TF risk understanding. While foreign currency can be sold for local currency, Eritrea does not exchange local currency for foreign currency.
224. **MVTS:** The BE demonstrated a reasonable understanding of the ML risks for the money remittance sector. In the context of Eritrea, no outward remittance is allowed. For inward remittances, transactions are conducted on behalf of residents only, who live in the diaspora. To mitigate the risk, a two-tiered approach is applied to inward funds transfer; where for transactions below the Nakfa 5000 threshold, payout is done by the MVTS while for transactions above that threshold, customers are referred to banks to open accounts where the funds can be deposited and transactions subjected to KYC for cash withdrawals in terms of the threshold limit. The BE's understanding of TF risk is negligible. In the absence of the sectoral risk assessment, the BE understood TF risk to emanate from Eritreans in the diaspora who maintain their families, whose source of funds is scrutinised before funds are received without appreciating the nature and extent of the risks.
225. There is no DNFBPs AML/CFT supervisor in Eritrea.

6.2.3 Risk-based supervision of compliance with AML/CFT requirements

226. **The BE has not commenced AML/CFT risk-based supervision of its supervised entities largely due to the lack of adequately trained staff on risk-based supervision tools. However, the process to move towards a risk-based approach was underway at the time of the onsite visit.** The BE conducted a limited scope of AML/CFT supervision as part of its prudential supervision. Overall, the process was compliance-based and not suitable for determining compliance with AML/CFT requirements by the supervised entities.
227. The BE Supervision Department is responsible for AML/CFT supervision and monitoring of all FIs except microfinance. The Department requires capacity including enhancing training of the staff and applying RBA. For instance, the Department has no ML/TF risk categorisation of its entities and AML/CFT RBA framework. It has seven (7) inspectors for both prudential and AML/CFT functions, who are not well trained in RBA AML/CFT supervision. Overall, the Department has no right mix of AML/CFT supervisory tools such as risk assessment of the profiles of the sectors and entities, risk-based manual/procedures for onsite and offsite inspection, and outreach plans to effectively monitor and enforce AML/CFT requirements.
228. As at the time of the onsite, the Department indicated that it had covered, in prudential inspections, some AML/CFT obligations in two (2) banks. It was also in the process of finalising an inspection of the foreign exchange bureau while no inspection was conducted on the insurance company during the review period. Based on the review of the inspection reports provided, the Department assessed compliance of banks against the CDD Directive No. 01/2014, in particular the adequacy of the compliance function and the requirement to submit a list of all AML/CFT staff trainings to BE on an annual basis.
229. Since DNFBPs do not have a designated AML/CFT supervisor, the sector is not supervised and monitored for AML/CFT compliance.

6.2.4 Remedial actions and effective, proportionate, and dissuasive sanctions

230. **The BE has a wide range of remedial measures and sanctions available to enforce compliance with AML/CFT obligations by its supervised entities. At the time of the onsite visit, the BE applied remedial actions on AML/CFT deficiencies identified during inspections. No other sanction types were applied.** The scope and details of the inspection scope are limited to provide sufficient information on the risk methods used and the extent of review undertaken for each obligation covered, though some non-compliance areas were identified.
231. For the two inspections conducted on banks, there were AML compliance failures relating to compliance function and on-going training, to which the BE issued remedial actions. However, there was no evidence of follow up on the non-compliance areas.
232. Since DNFBPs are not supervised, no violations for which sanctions could be applied were identified.

6.2.5 Impact of supervisory actions on compliance

233. **There was no evidence of the impact of the limited supervisory actions taken by the BE on the compliance levels of the FIs including on the few that the BE had issued remedial actions.** Nonetheless, the FIs have demonstrated relatively good compliance levels for CDD and record keeping requirements, identification of STRs, correspondent banking and TFS.
234. There is no demonstrated impact of voluntary compliance by the DNFBPs.

6.2.6 Promoting a clear understanding of AML/CFT obligations and ML/TF risks

235. **Supervisors have not undertaken any outreach or provided adequate guidance (beyond the CDD Directive) to FIs to sufficiently improve the understanding of ML/TF risks and AML/CFT requirements.** This could be attributed to the fact that Eritrea has not conducted any ML/TF risk assessment, and the BE lacked risk-based supervision capabilities.
236. No outreach was conducted nor guidance issued to the DNFBPs in the absence of the AML/CF supervisor and operational FIU.

Overall conclusion on IO.3

All FIs in Eritrea are state-owned and controlled by the State. The BE applies strong market entry rules to determine fit and proper requirements on shareholders (in the case of insurance) and key personnel for operations and governance including criminal checks. The BE has negligible ML/TF risk understanding and lacks the frameworks for risk-based inspections and monitoring of the supervised entities and to take enforcement for non-complying entities. The AML/CFT inspections were limited in scope and detail to comprehensively determine compliance patterns and, where non-compliance was identified, remedial actions were applied, though information on the impact on compliance behaviour could not be availed. The BE has not conducted awareness-raising activities nor issued guidance to promote the understanding of ML/TF risks and AML/CFT obligations.

Eritrea is rated as having a Low Level of effectiveness for IO3.

Chapter 7. LEGAL PERSONS AND ARRANGEMENTS

7.1 Key Findings and Recommended Actions

Key Findings

- a. Eritrea has major technical compliance deficiencies identified in R.24 in respect of basic and beneficial ownership obligations of legal persons. While Eritrea has the legal basis and mechanisms in place to maintain basic information, there are no similar measures for beneficial ownership.
- b. Eritrea demonstrated a low ML/TF risk understanding on the extent to which the legal persons can be misused which could be attributed to the lack of a risk assessment on legal persons.
- c. Eritrea has not developed and applied risk-informed mitigating measures to prevent the misuse of legal persons for ML/TF.
- d. Since no violations of basic and beneficial ownership requirements were identified, no sanctions were applied and therefore the extent to which the sanctions are proportionate, dissuasive, and effective could not be determined.

Recommended Actions

Eritrea should:

- a. Address the technical compliance deficiencies identified in R.24 particularly the requirements for legal persons to provide BO information to the registry to enable the registry to obtain and maintain adequate, accurate and current information on legal persons. This should include building the capacity to collect and maintain the information and provide training to the registry officers.
- b. Enhance ML/TF risk understanding of the legal persons across the competent authorities. This should include conducting a risk assessment of the legal persons and using the result as the basis to promote ML/TF risk understanding.
- c. Ensures that the registries (e.g., BLO) develop and implement risk-based mitigating measures to prevent misuse of legal persons for ML/TF. This should include resourcing and skilling the officers of the registries (e.g., BLO) to apply the measures appropriately.
- d. Ensures that the registries (e.g., BLO) develop and implement effective mechanisms for accessing basic and beneficial ownership information for use in ML/TF investigations.
- e. Apply proportionate, dissuasive, and effective sanctions for violations of basic and beneficial ownership information.
- f. Ensures that the registries (e.g., BLO) maintain statistics and case studies to test the effectiveness of the system.

237. The relevant Immediate Outcome considered and assessed in this chapter is IO.5. The Recommendations relevant for the assessment of effectiveness under this section are R.24-25, and elements of R.1, 10, 37 and 40.⁷

Background and Context

238. In Eritrea the establishment of legal persons is two-fold; the legal entities that are created for commercial purposes are created under the Commercial Code. Their creation is administered by the Ministry of Trade, through the Business Licensing Office. The legal entities that are created for social purposes as created under the Civil Code 165/1960. These are registered by the National Police and Security Forces Command (NPSFC). As to the operations they carryout, oversight is conducted by the specific umbrella Ministry under which they operate along with the National Police and Security Forces Command. There are no legal arrangements in operation in Eritrea even though they are covered under the AML/CFT Proclamation 175/2014.

7.2 Immediate Outcome 5 (Legal Persons and Arrangements)

7.2.1 Public availability of information on the creation and types of legal persons and arrangements

239. **Information on the creation of legal persons is publicly available to some extent available at the Business Licensing Office (BLO) in all regions only in hardcopy. Due to internet connectivity challenges, the information is not readily available online.** The Commercial Code 1960 is the legal basis for the creation of business organisations with legal personality in Eritrea. The competent authority responsible for creating legal persons commercial activities is the BLO in the Ministry of Trade. The information and the processes undertaken in registering a business with the BLO are not available electronically and can only be accessed, in the local language, or by visiting the BLO regional offices in all regions and in bookstores.

240. When applying for incorporation of a legal person for commercial purpose, an applicant must submit information pertaining to their identity verified by the Regional Administration Office (in the relevant region), tax clearance issued by the Inland Revenue Department, criminal record clearance issued by the Police. These are verified by the regulator that would oversee such a going concern before issuing the permit after which, the applicant can register with the BLO. The BLO also requires the applicants to submit information relating to their identity, tax and criminal record which they verify with relevant authorities as noted above. In addition, for any changes that occur during the year, with regards to basic information, the BLO must be notified and a new certificate reflecting the change is issued once the new information has been verified. Failure to inform the BLO of any changes may result in either a suspension or a revocation of the business license. This ensures that the information held by the BLO is up to date. Other requirements for creating companies are by operation of the law as contained in the Commercial Code.

241. The BLO does not make basic information available electronically and can only be accessed through visiting the BLO regional offices. Such information is contained in the pamphlets with the necessary guidelines. This form of communicating the requirements is mainly due to challenges that exist in Eritrea with the internet, necessitating publication in hard copies. Since the Authorities did not provide the pamphlets, the adequacy of the information provided could be verified.

242. Furthermore, Eritrea can create legal persons, such as associations whose interest is not to make profit pursuant to the Transitional Civil Code, further guidance on their creation is not widely available

⁷ The availability of accurate and up-to-date basic and beneficial ownership information is also assessed by the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. In some cases, the findings may differ due to differences in the FATF and Global Forum's respective methodologies, objectives and scope of the standards.

unless one visits the National Police and Security Force Command or the Ministry that would have an oversight of such a body corporate.

7.2.2 Identification, assessment and understanding of ML/TF risks and vulnerabilities of legal entities

243. **The BLO and National Police and Security Forces have not undertaken a sectoral risk assessment on all types of legal persons that are created in Eritrea and have demonstrated a low ML/TF risk understanding.** In the absence of ML/TF risk assessment as the basis for promoting the ML/TF risk understanding, the Authorities rely on the general risk and context information. For instance, branches of foreign companies in the country are considered to pose higher ML/TF risks on the basis that the Authorities are of the view that they might not have the ability to apply similar controls to the parent companies.

7.2.3 Mitigating measures to prevent the misuse of legal persons and arrangements

244. **In the absence of adequate ML/TF risk understanding, Eritrea does not apply risk-based mitigating measures to prevent the potential misuse of legal person for ML/TF.** The Authorities focus on ensuring that legal persons comply with their statutory obligations including legal operations and complying with reporting obligations. The measures result in enforcement action taken which include but are not limited to, suspension of an operating licence and deregistration of a business that fails to comply with licence and registration requirements.

7.2.4 Timely access to adequate, accurate and current basic and beneficial ownership information on legal persons

245. **In general, Eritrea maintains adequate, accurate and current basic and beneficial ownership information to a certain while there is no evidence that there are mechanisms in place to access the information. There is no information showing that the LEAs have accessed and used the information to pursue ML/TF and predicate offence cases.**

Basic information

246. The information contained in the BLO register is accessible to the public on payment of a prescribed fee for the search of a particular entry or relevant extract from the register in terms of Article 92 of the Commercial Code. In accordance with Article 331 of the Commercial Code every share company is required to maintain a register of shareholders. The register may be inspected by any shareholder free of charge and can be inspected by the public on payment of a prescribed fee. Competent and regulatory authorities may inspect and obtain information as necessary from the commercial register and registers of shareholders. The BLO maintains the information in hard copy. The LEAs can access this basic information timely (three to five days).

Beneficial Owner Information

247. The BLO is not legally mandated to keep beneficial ownership information and in practice does not routinely obtain and maintain BO information. FIs are required to maintain BO which the LEAs can access using their powers; however, in practice, the FIs collect BO information to a limited extent (see IO.4 for details) and there was no evidence demonstrating access of the information by the LEAs. Overall, statistics and case studies are showing that the LEAs and other competent authorities access useful BO information in a timely manner. Mechanisms to enable access to BO information from FIs by competent authorities were non-existent.

7.2.5 Effectiveness, proportionality and dissuasiveness of sanctions

248. **Eritrea has the legal framework to punish legal persons failing to comply with their reporting obligations but has not applied the sanctions for violations making it difficult to assess the extent**

to which they are proportionate, dissuasive and effective. The sanctions are set out in the Commercial Code, AML/CFT Proclamation and the Penal Code which include administrative and penal sanctions.

Overall conclusion on IO.5

Information on the creation of legal persons for commercial purpose can be obtained from the Commercial Code and the BLO. Further, the information is available to the public through print media. With regards to the creation of associations, such information is contained in the Civil Code, and the information is publicly available at the Ministry. Competent authorities can access basic information kept in respect of legal persons and such information is made available within a reasonable time. Availability of accurate and up to date BO information is limited since the registries such as BLO do not obtain and maintain the information. No sanctions have been applied for failure to comply with the information requirements.

Eritrea is rated as having a Low level of effectiveness for IO.5.

Chapter 8. INTERNATIONAL COOPERATION

8.1 Key Findings and Recommended Actions

Key Findings

- a. Eritrea has no legal basis for MLA. While Eritrea has acceded to the Vienna Convention and the Palermo Convention, it has not acceded to the UN Convention for the Suppression of the Financing of Terrorism and the UN Convention against Corruption (Merida Convention). The absence of these frameworks and arrangements has limited Eritrea's efforts in providing and seeking international cooperation and exchange of information on AML/CFT matters.
- b. Eritrea has no central authority and case management system for managing and prioritising MLA or extradition requests. Eritrea has an ad-hoc system in place, though it is not based on clearly stipulated and understood guidelines. The tracking system uses multiple manual logbooks within different competent authorities and is not synchronised.
- c. Eritrea has not made MLA/extradition requests or received MLA/extradition requests for ML, TF and associated predicate offences.

Recommended Actions

- a. Eritrea should accede to the remaining international instruments as prescribed in Recommendation 36 and further fully domesticate those international instruments in line with domestic laws.
- b. Eritrea should designate in its domestic law a central authority for the receipt and processing of international request and issue guidelines on how international requests for mutual legal assistance and extradition should be processed.
- c. Develop a formal case management system to improve tracking and prioritisation of MLA and extradition requests in line with the risk profile of the jurisdiction.

Develop legal and institutional frameworks for competent authorities to engage in formal and informal AML/CFT cooperation with international counterparts.

249. The relevant Immediate Outcome considered and assessed in this chapter is IO.2. The Recommendations relevant for the assessment of effectiveness under this section are R.36-40 and elements of R.9, 15, 24, 25 and 32.

8.2 Immediate Outcome 2 (International Cooperation)

8.2.1 Providing constructive and timely MLA and extradition

250. **Eritrea's capacity to process incoming MLA and extradition requests effectively in a constructive manner and within reasonable timeframes could not be determined, as there was no record of received requests on ML/TF and associated predicate offenses at the time of assessment.** Eritrea currently operates without a legal basis to provide MLA. While cooperation with foreign jurisdictions is allowed under certain conditions, the absence of a legal basis for executing MLA requests or the legal uncertainty regarding the existence of a central authority for executing such requests could impede Eritrea's response to such requests. While Eritrea has acceded to the Vienna Convention and the Palermo Convention, it has not acceded to the UN Convention for the Suppression of the Financing

of Terrorism and the UN Convention against Corruption (Merida Convention). Furthermore, the international instruments that have been acceded to have not been domesticated.

251. If requests are received, they would follow diplomatic channels, with the Ministry of Foreign Affairs acting as an intermediary between requesting countries and Eritrean authorities. The requests made will be registered in a general logbook at the Ministry's International Organisation Desk and manually tracked. The Ministry of Justice is then responsible for liaising with other relevant authorities, such as the Office of the Attorney General or the Police, based on the specifics of each case. However, this process lacks a structured oversight and prioritisation mechanisms that a case management system would provide.

8.2.2 Seeking timely legal assistance to pursue domestic ML, associated predicates and TF cases with transnational elements

252. **Eritrea currently lacks a comprehensive legal framework and case management system to seek MLA for cases involving ML, predicate offences, and terrorist financing with transnational elements. Although the Ministry of Foreign Affairs serves as the primary contact point for such requests, Eritrean authorities have yet to process any outgoing MLA requests.**
253. Eritrea has provided an example of an outgoing extradition request in 2018 involving embezzlement (see Case Study 8.2.1), yet this case falls outside the period under review and is not on ML and TF. Eritrea does not prioritise ML/TF cases to identify cases with MLA requests (see IOs.7 and 9).

Case Study 8.2.1: Outgoing Extradition Request

In 2018, the Ministry of Finance and National Development initiated a case of embezzlement against a loan officer within a Microfinance and Loan Project. The amount misappropriated was approximately 472,000 Nakfa. During the investigation, Eritrean police determined that the individual had fled to Country A.

Following an arrest warrant issued on 3 April 2018, Eritrean authorities, through the Ministry of Foreign Affairs, transmitted the warrant to Country A, requesting extradition. Eritrean authorities coordinated with the Eritrean Ambassador in Country A to facilitate communication between relevant Eritrean and foreign authorities, complying with Country A's legal requirements.

The extradition was successful, and the individual was returned to Eritrea in March 2020, where they were convicted, sentenced to imprisonment for two years and one month, and ordered to repay the embezzled funds.

8.2.3 Seeking other forms of international cooperation for AML/CFT purposes

254. Eritrea's authorities have a legal obligation to cooperate internationally with their counterparts on AML/CFT issues as per Article 39 of the AML/CFT Proclamation. **However, the authorities have not demonstrated active engagement in international cooperation for AML/CFT purposes, attributing this in part to a perceived low risk of ML/TF in the country.** Instead, cooperation has been focused on general transnational criminal matters, primarily involving human trafficking and smuggling. For example, Eritrea's law enforcement engages with the INTERPOL network for intelligence-sharing and participates in joint regional operations related to trafficking and smuggling.
255. At the time of the onsite visit Eritrean authorities had not recorded any case of AML/CFT-specific cooperation requests with foreign counterparts. Despite Eritrea's membership in INTERPOL and the East Africa Police Chiefs Cooperation Organisation, limited mechanisms are in place for law

enforcement agencies to conduct inquiries on behalf of international counterparts, as outlined in Recommendation 40. Eritrean authorities participate minimally in international cooperation efforts, reflecting a generally limited capability to actively seek assistance from foreign counterparts in cross-border criminal cases. The absence of a structured approach to international cooperation which would have to be provided for in law, further diminishes Eritrea's ability to respond effectively to transnational ML/TF threats and limits the operational support that Eritrean authorities could otherwise provide or receive in identifying, investigating, and disrupting cross-border ML/TF networks.

8.2.4 Providing other forms of international cooperation for AML/CFT purposes

256. There was no data provided to demonstrate instances of outgoing or incoming information requests or exchanges for AML/CFT purposes. This can be attributed partly to the fact that the FIU is not operational and other competent authorities could not demonstrate through statistical data their capability of providing international cooperation to their counterparts for money laundering or terrorist financing specific matters.

8.2.5 International exchange of basic and beneficial ownership information of legal persons and arrangements

257. Eritrean authorities are not equipped to provide beneficial ownership information on legal persons and arrangements due to limitations in current verification mechanisms and a lack of a structured approach for beneficial ownership data collection. The Business Licensing Office in Eritrea is responsible for collecting basic business information and has occasionally engaged in international information exchanges for verifying shareholders or registration details of foreign-based parent companies, particularly in the mining sector. The Financial Institutions that are mandated to collect beneficial information, could not demonstrate effective engagement with foreign competent authorities for the purposes of exchanging beneficial information.

Overall Conclusion on IO.2

Eritrea's international cooperation framework lacks a comprehensive legal and procedural foundation. The absence of a case management system and prioritisation mechanisms hinder Eritrea's ability to constructively and timely engage in international cooperation for AML/CFT purposes. Additionally, limited ratification of essential AML/CFT conventions further restricts Eritrea's scope for international engagement, particularly concerning ML/TF matters.

A more structured and centralised approach to managing international cooperation requests, enhanced by a clear legal mandate, would enable Eritrea to better align with FATF's Immediate Outcome 2 standards. Improved institutional knowledge on AML/CFT risks and cooperation, combined with ratification of outstanding international instruments, would also help Eritrea develop a more effective framework for AML/CFT-related international collaboration.

Eritrea is rated as having a Low level of effectiveness for IO.2.

TECHNICAL COMPLIANCE ANNEX

This section provides a detailed analysis of the level of compliance with the FATF 40 Recommendations in their numerical order. It does not include descriptive text on the country's situation or risks, and is limited to the analysis of technical criteria for each Recommendation. It should be read in conjunction with the Mutual Evaluation Report.

Recommendation 1 – Assessing risks and applying a risk-based approach

Obligations and Decisions for Countries

Risk assessment

Criterion 1.1 (Not Met). Eritrea has not identified and assessed its ML/TF risks.

Criterion 1.2 (Met). Eritrea designated the FIU as the Authority to coordinate actions to assess risks (Article 14 (1) (f) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 1.3 (Not Met). Since Eritrea has not conducted an ML/TF risk assessment, no updates could be made.

Criterion 1.4 (Not Met). Eritrea has no mechanism in place to provide information on the results of the risk assessment(s) to all relevant competent authorities, FIs and DNFBPs. There are no self-regulatory bodies in Eritrea for the FATF-designated activities.

Risk Mitigation

Criterion 1.5 (Not Met). Eritrea did not demonstrate how their understanding of risks has informed the allocation of resources and implementation of measures to prevent or mitigate identified ML/TF risks. Overall, resource allocation and implementation of measures to prevent or mitigate risks are not based on risks.

Criterion 1.6 (N/A). Eritrea has not decided to apply some of the FATF Recommendations requiring FIs and DNFBPs to certain actions for the circumstances listed in 1.6 (a) and (b).

Criterion 1.7 (Mostly Met). Article 6 (17) of the AML/CFT Proclamation 2014 (as amended) requires Banks to apply EDD measures on high-risk customers, business relationships and transactions. For all FIs, enhanced measures apply to clients from countries which do not apply or have inadequate AML/CFT systems. In addition, the definition of high-risk categories to which enhanced measures should be applied include PEPs, companies with bearer shares and complex, unusual and complex transactions. The requirements do not apply to the DNFBPs.

Criterion 1.8 (N/A). Eritrea does not allow simplified measures for some of the FATF Recommendations requiring FIs or DNFBPs to take certain actions based on a lower risk identified in a risk assessment.

Criterion 1.9 (Not Met). The BE and FIU (not yet operational) do not apply risk-based supervision to FIs. There is no supervisor for micro-finance and DNFBPs to apply a risk-based approach to AML/CFT supervision.

Obligations and decisions for Financial Institutions (FIs) and DNFBPs

Risk assessment

Criterion 1.10 (Not Met). There is no specific obligation for FIs and DNFBPs to take appropriate steps to identify, assess and understand their ML/TF risks, including the requirements to document their risk assessments; consider all the relevant risk factors before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied; keep the assessments up to date and have an appropriate mechanisms to provide risk assessment information to Competent Authorities and SRBs.

Risk mitigation

Criterion 1.11 (Mostly Met). FIs are required to:

- a) **(Partly Met):** Establish and maintain internal policies, procedures, and controls to prevent ML/TF, and communicate the same to their employees and the Bank (Article 5 (1) of the AML/CFT Proclamation 2014 (as amended)). However, there is no obligation for FIs to have their internal policies, procedures, and controls approved by Senior Management. DNFBPs and micro-finance are not subject to similar obligations to the FIs, with the former only required to file STRs and protect the information related to it.
- b) **(Mostly Met):** Develop appropriate compliance management arrangements which at a minimum include ascertaining the application; of all laws related to AML and CFT thus enabling the FIs to monitor the implementation of the AML/CFT controls; as well as internal policies, procedures and controls when establishing customer relationships and conducting ongoing due diligence (Article 5 (2) (b) of the AML/CFT Proclamation 2014 (as amended)). However, there is no obligation for the FIs to enhance their AML/CFT controls if deemed necessary. There is no obligation for DNFBPs to develop compliance programme arrangements.
- c) **(Mostly Met):** Perform enhanced due diligence on high-risk categories of customers, business relationships or transactions, which include but are not limited to PEPs, large and unusual or complex transactions and clients from high-risk jurisdictions as listed in Article 1 (12) of the AML/CFT Proclamation 2014 (as amended) (Article 6 (17) of the AML/CFT Proclamation 2014 (as amended)). This requirement does not apply to DNFBPs.

Criterion 1.12 (N/A). As indicated in c.1.1 and 1.8, Eritrea does not permit FIs and DNFBPs to take simplified measures to manage and mitigate low-risk scenarios. Accordingly, Eritrea has no legal prohibition for FIs and DNFBPs which apply simplified measures to exclude situations where there is a suspicion of ML/TF.

Weighting and Conclusion

While the FIU is by law the risk assessment national coordinator, Eritrea has not undertaken any ML/TF risk assessment nor required FIs and DNFBPs to conduct entity risk assessments. FIs are required to develop internal controls and programmes and apply enhanced measures to high-risk situations identified by law. The supervisors have not developed and implemented risk-based supervision methods. **Eritrea is rated Non-Compliant with R. 1.**

Recommendation 2 - National Cooperation and Coordination

Criterion 2.1 (Not Met). Eritrea does not have national AML/CFT policies informed by the risks identified. As a result, no regular policies review could be done.

Criterion 2.2 (Met). Eritrea has designated the National Coordination Committee to coordinate national policy on AML/CFT initiatives.

Criterion 2.3 (Not Met). Eritrea has not demonstrated mechanisms that are in place to enable policymakers, the Financial Intelligence Unit (FIU), law enforcement authorities, supervisors and other relevant competent authorities to co-operate, and where appropriate, co-ordinate and exchange information domestically with each other concerning the development and implementation of AML/CFT policies and activities.

Criterion 2.4 (Not Met). There is no mechanism for PF national coordination and cooperation in Eritrea.

Criterion 2.5 (Not Met). Eritrea has no cooperation and coordination between relevant authorities to ensure the compatibility of AML/CFT requirements with data protection and privacy rules.

Weighting and Conclusion

Except for establishing the AML/CFT National Committee, there are no mechanisms in place to comply with the requirements of R.2.

Eritrea is rated Non-Compliant with R. 2.

Recommendation 3 - Money laundering offence

Criterion 3.1 (Not Met). Eritrea criminalises ML under Article 31 of the AML/CFT Proclamation No 175/2014 (as amended by Proclamation No. 181/2018). The wording of Article 31 closely follows the wording in Article 3(1)(b) of the Vienna Convention and the offence covers two main elements. That is, the conversion/transfer of property knowing that such property is the proceed of crime to conceal or disguise the illicit origin of such property and/or to assist any person who is involved in the commission of a predicate offence to evade the legal consequences of his actions.

However, Article 2(1) (26) of the AML/CFT Proclamation defines the ‘proceeds of crime’ as any property derived or obtained directly or indirectly from an ML or TF offence. This definition is not consistent with the definition of proceeds of crime under the Vienna Convention and the Palermo Convention.

Criterion 3.2 (Not Met). Eritrea applies a threshold approach to predicate offences which is linked to the penalty of ‘rigorous imprisonment’. Based on this threshold, ML is linked to violent crimes. Many of the offences under the Penal Code, that generate proceeds but are not ‘*of a very grave nature*’ and not ‘*committed by offenders who are particularly dangerous to society*’, fall short of the rigorous imprisonment

threshold. These include trafficking in persons and migrant smuggling; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; and tax crimes which are punishable in Eritrea by ‘simple imprisonment’ not exceeding one year. Predicate offences for ML do not therefore cover all serious offences, with a view to including the widest range of predicate offences.

Criterion 3.3 (*Not Met*). Article 2(24) of the AML/CFT Proclamation defines a ‘predicate offence’ to mean any offence which generates proceeds of crime and is punishable with rigorous imprisonment. The rigorous imprisonment threshold focuses mainly on the danger posed by the offender and not on the seriousness of the offences and does not meet sub criteria (a) to (c).

Criterion 3.4 (*Partly Met*). Eritrea defines property widely in Article 2(25) of the AML/CFT Proclamation. Property extends to any type of property, regardless of its value, that directly or indirectly represents the proceeds of crime. The proceeds of crime are however restricted to ML and TF offences and exclude proceeds of crime derived from underlying predicate offences for ML.

Criterion 3.5 (*Not Met*). Proceeds of crime are defined as being proceeds for ML or TF and not linked to proceeds for predicate offences. It would therefore be impossible to prove the ML offence. In addition, Eritrean laws do not make provision that when proving that property is the proceeds of crime, it should not be necessary that a person be convicted of a predicate offence.

Criterion 3.6 (*Not Met*). Eritrea does not extend predicate offences for money laundering to conduct that occurred in another country, which constitutes an offence in that country, and which would have constituted a predicate offence had it occurred domestically.

Criterion 3.7 (*Not Met*). Eritrea does not provide that the ML offence should apply to persons who commit the predicate offence. As a civil law jurisdiction, it would be contrary to fundamental principles of domestic law in Eritrea for the ML offence to apply to persons who commit predicate offences if this is not specifically provided for in the law or codified.

Criterion 3.8 (*Not Met*). Eritrea does not provide for the intent and knowledge required to prove the ML offence to be inferred from objective factual circumstances. As a civil law jurisdiction, it would not be possible for the intent and knowledge required to prove ML offence to be inferred from objective factual circumstances in Eritrea if this is not specifically provided for in the law or codified.

Criterion 3.9 (*Met*). ML offence is punishable with rigorous imprisonment from five years to ten years and a fine not exceeding Fifty Thousand Nakfa (3,350 USD) (Article 31 of the AML/CFT Proclamation). These criminal sanctions are considered proportionate and dissuasive.

Criterion 3.10 (*Met*). A legal person can be charged with the offence of ML under Article 31 of AML/CFT Proclamation. The competent court may under Article 33 order one or more of the following measures on a legal person found guilty: (a) prohibit permanently or for a maximum period of two years from directly or indirectly carrying on certain business activities; (b) place under court supervision; (c) close permanently or for a period of two years the premises which were used for the commission of the offence;

and/or (d) wind up. The prescribed sanction provided for the offence of ML is both proportionate and dissuasive. Eritrean law allows parallel criminal, civil or administrative proceedings with respect to legal persons where there is more than one form of liability available.

Criterion 3.11 (Met). Articles 31(2) and 31(3) of the AML/CFT Proclamation and Articles 32-36, 37, 39, 439, 472, 473 of the Transitional Penal Code of Eritrea (TPCE) cover ancillary offences to the ML offence. These include participating, conspiring, attempting, aiding, abetting, facilitating and counselling.

Weighting and Conclusion

The definition of 'proceeds of crime' as any property derived or obtained directly or indirectly from an ML or TF offence is not consistent with the definition of proceeds of crime under the Vienna Convention and the Palermo Convention. In addition, predicate offences for ML do not cover all serious offences as money laundering is linked to the rigorous imprisonment threshold (which focuses on the danger posed by the offender and not the seriousness of the offence).

Eritrea is rated Non-Compliant with Recommendation 3.

Recommendation 4 - Confiscation and provisional measures

Criterion 4.1 (Partly met).

Criterion 4.1 (a) (Met). Eritrean law allows for the confiscation of laundered property (Art. 36 (1) of the AML/CFT Proclamation No 175/2014).

Criterion 4.1 (b) (Partly Met). In terms of Article 36 (1) of the AML/CFT Proclamation, the power of Competent Authorities to confiscate proceeds of crime is limited to confiscating proceeds from a money laundering offence or a terrorist financing offence. This is due to how proceeds of crime and predicate offence are defined which are limited to proceeds from money laundering and terrorist financing [Article 2(24) and (26) of the AML/CFT Proclamation 175/2014]. Moreover, confiscation of instrumentalities used or intended for use in ML or predicate offences are not covered under the AML/CFT law. Nonetheless, Articles 97 of the Penal Code enables 1957 Eritrea to confiscate any property the offender has acquired directly or indirectly by the commission of an offence in respect of which there has been a conviction, while Article 99 of the Penal Code 1957 enables Eritrea to confiscate any material benefit given or intended to be given to an offender to commit an offence.

Criterion 4.1(c) (Partly Met). Pursuant to Article 36, the court is empowered to confiscate any property that is proceeds of crime or object of the predicate offence. According to Article 2 (1) (26), Proceeds of Crime include any property derived or obtained, directly or indirectly, from an offence under Article 32, covering the financing of terrorism, terrorist acts or terrorist organisations. However, deficiencies noted in criterion 5.1 below have impact in c.4.1(c).

Criterion 4.1 (d) (Not Met). There is no measure that enable the confiscation of property of corresponding value.

Criterion 4.2 (Partly Met)

Criterion 4.2 (a) (Mostly Met). Article 37 (2) of the AML/CFT Proclamation No 175/2014 empowers the Central Seizure and Confiscation Agency to assist the competent authorities and other law enforcement bodies responsible for investigating and prosecuting offences, in identifying and tracing property that may be subject to seizure and confiscation. However, the mandate to evaluate property that is subject to confiscation is not covered.

Criterion 4.2 (b) (Partly Met). The Bank and the FIU are empowered to carry provisional measures of freezing, while the competent authority may, either on its own initiative or that of the Attorney General's Office, request the court to impose provisional measures of seizing property associated with money laundering or terrorism financing. The mandates, to freeze, given to the Bank and the FIU are inconsistent with each other, while the FIU should apply and obtain a court order to freeze accounts, the Bank simply makes a decision compelling the FIs to freeze funds. Furthermore, it has not been explicitly stated who the competent authority is delegated to carry out provisional measures of freezing. It is also not stated whether the competent authority or the OAG can *ex-parte* carry out provisional measures.

Criterion 4.2 (c) (Not Met). There is no provision stipulating measures for the competent authority to prevent or void actions that prejudice the country's ability to freeze or seize property that may be subject to confiscation.

Criterion 4.2 (d) (Partly Met). Competent authorities are empowered to take any appropriate measures through the wide range of powers they possess. Articles 34 (Provisional Seizure of Property), 35 (Provisional Freezing of Funds), 36 (Confiscation of Property) of the AML/CFT Proclamation 175/2014. However, there is no provision for the use of a wide range of investigative techniques for the investigation of money laundering, associated predicate offences and terrorist financing. (see criterion 31.2).

Criterion 4.3 (Mostly Met). Confiscation of property transferred to a third party cannot be ordered provided that the court is satisfied that the third party has acquired the property by paying reasonable price or in return for the provision of services corresponding to its value or any other legitimate grounds, and that he was unaware of its illicit origin [Article 36 (2) of the AML/CFT Proclamation 175/2014]. However, it is not stated what would trigger the court to pursue this cause of action in favour of a third party.

Criterion 4.4 (Partly Met). Article 37 (2) of the AML/CFT Proclamation 175/2014 establishes a Central Seizure and Confiscation Agency and enjoins it to manage seized property in cooperation with the Attorney General's Office or the court overseeing the investigation; administer and manage seized property to return or confiscate such property; and managing seized sum of money unless they were already entrusted to a financial institution. It can be discerned from this that the Agency cannot independently discharge the mandate of managing and disposing of property frozen, seized or confiscated. Further there are no mechanisms in place on how the property frozen, seized or confiscated would be managed or disposed of.

Weighting and Conclusion

The AML/CFT Proclamation 175/2014 establishes the confiscation regime of Eritrea for purposes of AML/CFT. However, the power of competent authorities to freeze, seize or confiscate proceeds of crime is limited to applying it against the proceeds of money laundering and terrorist financing offences. The deficiency emanates from how the definition of proceeds of crime and predicate offence is couched in Article 2 of the Proclamation 175/2014. The power to confiscate property of corresponding value is not provided in the statute law of Eritrea. Further there are inconsistent provisions that enable competent authorities to carry out provisional measures, in particular the power to freeze funds and/or accounts where in executing the mandates under these provisions can lead to duplication of efforts or unwarranted results. Lastly, there are no mechanisms in place to enable the Central Seizure and Confiscation Agency to carry out its mandate of managing and disposing of property frozen, seized or confiscated.

Eritrea is rated Partially Compliant with Recommendation 4.

Recommendation 5 - Terrorist financing offence

Criterion 5.1 (*Partly Met*).

Eritrea criminalises financing of terrorism under Article 32 of the AML/CFT Proclamation in accordance with Article 2(1) of the Terrorist Financing Convention as far as the material elements under the Convention are concerned. However, the definition of ‘terrorist act’ is limited to the wording in Article 2(1)(b) of the TF Convention and does not cover the different types of terrorist acts in terms of Article 2(1)(a) of the Convention.

Criterion 5.2 (*Met*).

In terms of Article 32(1) of the AML/CFT Proclamation, the TF offence extends to any person who intentionally provides or collects funds by any means, directly or indirectly, with the knowledge and intention that they would be used, in full or in part to carry out a terrorist act, or by a terrorist or terrorist organisation.

Criterion 5.2^{bis} (*Not Met*).

Eritrea has not criminalised financing the travel of individuals who travel to a State other than their States of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training.

Criterion 5.3 (*Partly Met*). Article 32 of the AML/CFT Proclamation criminalises TF from a funds point of view. However, there is no definition of funds. Eritrean law is therefore not explicit in relation to the funds or assets, their scope, value, and other benefits in kind which may be transferred through a transaction, including a legitimate source.

Criterion 5.4 (Met). Under Eritrean law, it is not necessary to prove that the funds collected or provided were actually used, in full or in part, to carry out a terrorist act or were linked to a specific terrorist act.

Criterion 5.5 (Not Met). Eritrea does not provide for the intent and knowledge required to prove the offence to be inferred from objective factual circumstances. As a civil law jurisdiction, it would not be possible for the intent and knowledge required to prove the offence to be inferred from objective factual circumstances in Eritrea if this is not specifically provided for in the law or codified.

Criterion 5.6 (Not met). A TF offence is punishable by rigorous imprisonment from five years to ten years, and a fine not exceeding Fifty Thousand Nakfa (3,350 USD). Relative to other serious offences in Eritrea which carry a maximum penalty of 25 years of imprisonment or imprisonment for life, the rigorous imprisonment from five to ten years and a fine not exceeding fifty thousand Nakfa (3,350 USD) applicable to natural persons convicted of TF is not proportionate and dissuasive.

Criterion 5.7 (Met). A legal person can be charged with the offence of TF under Article 32 of the AML/CFT Proclamation. A competent court may under Article 33 order one or more of the following measures on a legal person found guilty: (a) prohibit permanently or for a maximum period of two years from directly or indirectly carrying on certain business activities; (b) place under court supervision; (c) close permanently or for a period of two years the premises which were used for the commission of the offence; and /or (d) wind up. The prescribed sanction provided for the offence of TF is both proportionate and dissuasive. Eritrean law allows parallel criminal, civil or administrative proceedings concerning legal persons where there is more than one form of liability available.

Criterion 5.8 (Met). Article 32(2) of the AML/CFT Proclamation criminalises the attempt to commit financing of terrorism. Aiding, abetting, facilitating or concealing in the financing of terrorism is also criminalised under Article 32(2). Participation in, association with or conspiracy to commit financing of terrorism offence are covered under Article 32(3). In any criminal activity, Articles 32-36 of TPCE cover participating in an offence, collective offences, incitement, and accomplices in criminal activities. These are consistent with elements of this criterion.

Criterion 5.9 (Not Met). Eritrea law does not expressly designate TF offences as ML predicate offences.

Criterion 5.10 (Not Met). Eritrean law does not expressly cover the financing of a terrorist act regardless of whether the terrorist act is committed within the country or abroad, or whether the person alleged to have committed TF is in the same country or a different country from the one in which the terrorist or terrorist organisation is located. The TF offence in Eritrea does not therefore have this extraterritorial effect.

Weighting and Conclusion

Eritrea has met the criteria in 5.2, 5.4, 5.7 and 5.8. However, the country has partly met criteria 5.1 and 5.3 while 5.2^{bis}, 5.5, 5.6, 5.9 and 5.10 are not met. The scope of the TF offence under Article 32 of the AML/CFT Proclamation does not include all the elements of the offence under the Terrorist Financing Convention. Acts constituting offences against the treaties in the Annex to the TF Convention are not covered. Furthermore, Eritrean law is not explicit in relation to the funds or assets, their scope, value and other benefits in kind which may be transferred through a transaction, including a legitimate source. There are therefore moderate shortcomings in c5.1, c5.2^{bis}, c5.3, c5.5 and c5.10.

Eritrea is rated Partially Compliant with Recommendation 5.

Recommendation 6 - Targeted financial sanctions related to terrorism and terrorist financing

Criterion 6.1 - 6.7 (Not Met). Eritrea has no clear authorities or procedures for identifying and designating persons or entities in accordance with relevant UNSCRs for the implementation of targeted financial sanctions related to terrorism and terrorist financing.

Weighting and Conclusion

Eritrea does not have measures in place to implement the requirements under this Recommendation.

Eritrea is rated Non-Compliant with Recommendation 6.

Recommendation 7 – Targeted financial sanctions related to proliferation

Criterion 7.1 – 7.5 (Not Met). Eritrea has no legal framework that provides for effective procedures or mechanisms to propose persons and entities to the UN Security Council for designation in accordance with relevant UNSCRs for implementation of targeted financial sanctions related to proliferation.

Weighting and Conclusion

Eritrea does not have measures in place to implement the requirements under this Recommendation.

Eritrea is rated Non-Compliant with Recommendation 7.

Recommendation 8 - Non-Profit Organisations (NPOs)

Criterion 8.1 -8.6 (Not Met). Eritrea has not conducted a TF risk assessment which serves as a first step in identifying, analysing and understanding TF risks. Consequently, it has not addressed the requirements of R8.

Weighting and Conclusion

Eritrea does not have measures in place to address the requirements of Recommendation 8.

Eritrea is rated Non-Compliant with Recommendation with R.8

Recommendation 9 – Financial institution secrecy laws

Criterion 9.1 (Partly Met). There are no financial secrecy laws that inhibit the implementation of AML/CFT measures in Eritrea (Article 10 of Legal Notice 130/2018).

Access to information by Competent Authorities

The Competent Authorities can access information they require to properly perform their functions in combating ML or TF from the FIs without any impediments of FI secrecy laws.

Sharing of information between financial institutions where this is required by R.13, R.16 or R.17.

Sharing of information between FI where this is required about cross-border correspondent banking or other similar relationships is permitted (Article 18 (1) (a) & (c) of the AML/CFT Proclamation 2014 (as amended)). The requirement for sharing information as required by R.17 is **not applicable** in Eritrea as the FIs are not permitted to rely on third party financial institutions or DNFBPs to perform elements (a)-(c) of the CDD measures set out in the Recommendation. However, ordering FIs in domestic wire transfers is not required to make the information available within three business days of receiving the request either from the beneficiary FI or from appropriate competent authorities. Additionally, there is no obligation which enables Law Enforcement Authorities (LEAs) to compel immediate production of such information from the ordering FI.

Sharing of information between competent authorities, either domestically or internationally.

The sharing of information domestically available to Financial Supervisors in Eritrea including information held by FIs, in a manner proportionate to their respective needs with their foreign counterparts is not undertaken. However, the sharing of information relating to inquiries conducted by Financial Supervisors on behalf of foreign counterparts, to facilitate effective group supervision is **not applicable** in Eritrea because banks in Eritrea do not have Group financial services.

Weighting and Conclusion

Overall, there are no FI secrecy laws which inhibit the implementation of AML/CFT measures as there exists a legal basis for information exchange from FIs to authorities and between competent authorities. However, regarding domestic wire transfers, there is no provision which compels the ordering FI to share information with beneficiary FI within three business days and there is the absence of the obligation which enables LEAs to compel immediate production of customer information from the ordering FI. Additionally, there is no provision for sharing of information domestically available to Financial Supervisors in Eritrea including information held by FIs, in a manner proportionate to their respective needs with their foreign counterparts.

Eritrea is rated Partially Compliant with R. 9.

Recommendation 10 – Customer due diligence (CDD)

Criterion 10.1 (*Met*). FIs are prohibited from keeping anonymous accounts or accounts in obviously fictitious names (Article 6(1) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 10.2 (*Mostly Met*). Article 6(3) of the AML/CFT Proclamation 2014 (as amended) requires FIs to undertake CDD when:

- a) (***Met***): Establishing business relations (Article 6 (3) (a) of AML/CFT Proclamation 2014 (as amended)).
- b) (***Met***): Carrying out occasional transactions above US\$10,000 or its equivalent in other currencies, including situations where the transaction is carried out in a single operation or in several operations that appear to be linked (Article 6 (3) (b) of AML/CFT Proclamation 2014 (as amended)).
- c) (***Not Met***): Article 14 (1) (c) of Legal Notice 130/2018 does not require FIs to conduct CDD when carrying out occasional transactions that are wire transfers in the circumstances covered by Recommendation 16 and its Interpretive Note (i.e. for all cross-border wire transfers of USD/EUR 1 000 or more).
- d) (***Met***): there is a suspicion of ML/TF, regardless of any exemptions or thresholds provided in the AML/CFT Proclamation 2014 (as amended) (Article 6 (3) (d) of the AML/CFT Proclamation, 2014 (as amended)); or
- e) (***Met***): The FI has doubts about the veracity or adequacy of previously obtained customer identification data (Article 6 (3) (e) of AML/CFT Proclamation 2014 (as amended)).

Required CDD Measures for all Customers.

Criterion 10.3 (*Met*). FIs are required to identify the customer (whether permanent or occasional, and whether a natural or legal person or legal arrangement) and verify that customer's identity using reliable, independent source documents, data or information (identification data). (Article 6 (4) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 10.4 (*Met*). Financial institutions should be required to verify that any person purporting to act on behalf of the customer is so authorized and identify and verify the identity of that person (Article 6; (6) (c) and (7) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 10.5 (Met). Beneficial Ownership definition is in line with the FATF standards (Article 2 (2) of the AML/CFT Proclamation 2014 (as amended)). FIs are required to identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner, using the relevant information or data obtained from a reliable source, such that the financial institution is satisfied that it knows who the beneficial owner is. (Article 6 (7) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 10.6 (Partially Met). FIs are required to obtain information on the purpose and intended nature of the business relationship (Article 6 (15) of the AML/CFT Proclamation 2014 as amended) as read with Article 14 (4) (e) of the Legal Notice 130/2018). However, there is no obligation for the FI to understand the purpose and intended nature of the business relationship.

Criterion 10.7 (Met). FIs are required to conduct ongoing due diligence on the business relationship, including: (a) scrutinizing transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the financial institution's knowledge of the customer, their business and risk profile, including where necessary, the source of funds Article 7 (10) (a) of the AML/CFT Proclamation 2014 (as amended); and (b) ensuring that documents, data or information collected under the CDD process is kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers (Article 7 (1) (b) of the AML/CFT Proclamation 2014 (as amended)).

Specific CDD Measures Required for Legal Persons and Legal Arrangements

Criterion 10.8 (Met). FIs are required to understand the nature of the customer's business and its ownership and control structure for customers that are legal persons or legal arrangements, the financial institution should be required (Article 6 (6) (a) of the AML/CFT Proclamation 2014 (as amended) as read with Articles 14; (1) and (4) (b) & (c) of Legal Notice 130/2018).

Criterion 10.9 (Met). FIs are required to identify the customer and verify the identity of customers that are legal persons or legal arrangements, through the following information: (a) name, legal form and proof of existence; (b) the powers that regulate and bind the legal person or arrangement, as well as the names of the relevant persons having a senior management position in the legal person or arrangement; and (c) the address of the registered office and, if different, a principal place of business (Article 6 (6) (e) of the AML/CFT Proclamation 2014 (as amended) as read with Article 14 (4) (b) of the Legal Notice 130/2018).

Criterion 10.10 (*Partly Met*).

- a) **(Met):** The FIs are required to identify and take reasonable measures to verify the identity of beneficial owners for customers that are legal persons through the following information: (a) the identity of the natural person(s) (if any) who ultimately has a controlling ownership interest in a legal person (Article 6(a) and 6 (7) of the AML/CFT Proclamation 2014 (as amended)).
- b) **(Not Met):** There is no specific obligation which requires FIs to identify and take reasonable measures to verify the identity of beneficial owners for customers that are legal persons, through obtaining the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means in case there is doubt under 10.10 (a).
- c) **(Not Met):** There is no specific obligation which requires FIs to identify and take reasonable measures to verify the identity of beneficial owners' customers that are legal persons, through obtaining the identity of the relevant natural person who holds the position of senior managing official in cases where no natural person is identified under 10.10 (a) or 10.10 (b).

Criterion 10.11 (*Partly Met*). For customers that are legal arrangements, FIs are required to identify and verify their customer's identity using, as much as possible, reliable independent source documents, data or information (Article 6 (4) of AML/CFT Proclamation 2014 (as amended) as read with Article 14 (1) of Legal Notice 130/2018). As part of this obligation, FIs are required to identify and verify the trustee, settler and the beneficiary of express trust and any other parties with authority to manage, vary or otherwise control the arrangement (Article 14 (4) (c) of Legal Notice 130/2018). However, there is no obligation for FIs to identify and take reasonable measures to verify the identity of beneficial owners for legal arrangements through identifying the protector (if any) and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership).

CDD for Beneficiaries of Life Insurance Policies

Criterion 10.12 (*Not Met*). There is no specific obligation which requires that in addition to the CDD measures required for the customer and the beneficial owner, FIs should conduct the CDD measures listed in 10.12 (a) – 10.12 (c) on the beneficiary of life insurance and other investment-related insurance policies, as soon as the beneficiary is identified or designated.

Criterion 10.13 (*Not Met*). There is no specific provision which requires FIs to include the beneficiary of a life insurance policy as a relevant risk factor in determining whether enhanced CDD measures are applicable and for FIs to take enhanced measures which should include reasonable measures to identify

and verify the identity of the beneficial owner of the beneficiary, at the time of payout, if the FI determines that a beneficiary who is a legal person or a legal arrangement presents a higher risk.

Timing for Verification

Criterion 10.14 (Partly Met). FIs are required to verify the identity of the customer before establishing a business relationship or conducting transactions for occasional customers (Article 14 (3) of Legal Notice No.130/2018) as read with Article 6 (3) (a) of AML/CFT Proclamation 2014 (as amended). However, there is no provision for FIs to verify the identity of the beneficial owners before or during the course of establishing a business relationship.

Criterion 10.15 (Not Applicable). Eritrea does not permit the completion of verification of customer identity after the establishment of the business relationship for the obligation for FIs to adopt risk management procedures concerning the conditions under which a customer may utilise the business relationship prior to verification is not applicable.

Existing Customers

Criterion 10.16 (Partly Met). FIs are required to apply CDD requirements to existing customers and business relationships on the basis of risk as stipulated in Article 7 (1) of the AML/CFT Proclamation 2014 (as amended) as read with Article 17 (b) (iii) of the Legal Notice No.130/2018). However, there is no specific obligation for FIs to apply CDD requirements to existing customers on the basis of materiality and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained.

Risk-Based Approach

Criterion 10.17 (Met). FIs are required to perform enhanced due diligence where the ML/TF risks are higher (Article 6 (17) of the AML/CFT Proclamation 2014 (as amended) as read with Article 17 (a) & (b) (i) – (iii) of Legal Notice No.130/2018.

Criterion 10.18 (Not Met). There are no specific obligations which only permit FIs to apply simplified CDD measures where lower risks have been identified, through an adequate analysis of risks by Eritrea or the FIs. Additionally, there is no requirement for the simplified measures to be commensurate with the lower risk factors, but not acceptable whenever there is suspicion of ML/TF, or specific higher risk scenarios apply.

Failure to Satisfactorily complete CDD

Criterion 10.19 (Not Met). There is no specific obligation which requires that where a FI is unable to comply with relevant CDD measures, it not to open the account, commence business relations or perform the transaction; or terminate the business relationship; and to consider making a suspicious transaction report (STR) in relation to the customer.

CDD and Tipping-Off

Criterion 10.20 (Not Met). In cases where FIs form a suspicion of ML or TF, and they reasonably believe that performing the CDD process will tip-off the customer, there is no requirement that permit the FI not to pursue the CDD process, and instead be required to file an STR.

Weighting and Conclusion

The AML/CFT Proclamation 2014 (as amended) has implemented some of the requirements of R.10 albeit with major deficiencies/shortcomings. The shortcomings are related to the absence of a requirement for FIs to conduct customer due diligence when carrying out occasional transactions that are wire transfers in the circumstances covered by R.16 and its Interpretive Note. FIs are not required to understand the purpose and intended nature of the business relationship; The absence of particular CDD requirements regarding the beneficiary of life insurance and other investment related insurance policies; provisions regulating situations in which an FI is permitted not to pursue the CDD process, when it reasonably believes that performing the CDD process will tip-off the client; provisions for FIs which are unable to comply with relevant CDD measures, not to open the account, commence business relations or perform the transaction; or terminate the business relationship; and to consider making a suspicious transaction report (STR) in relation to the customer; provision which permits FIs to apply simplified CDD measures where lower risks have been identified, through an adequate analysis of risks by the country or FIs; obligation for FIs to apply CDD requirements to existing customers on the basis of materiality and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained and provision for FIs to verify the identity of the beneficial owners before or during the course of establishing a business relationship. Additionally, there is no provision for FIs to identify and take reasonable measures to verify the identity of beneficial owners for customers that are legal persons; through obtaining the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means in case there is doubt under; and through obtaining the identity of the relevant natural person who holds the position of senior managing official in cases where no natural person.

Eritrea is rated Partially Compliant with R. 10.

Recommendation 11 – Record-keeping

Criterion 11.1 (*Met*). FIs are required to maintain all necessary records on transactions, both domestic and international, for at least ten (10) years following completion of the transaction (Article 11 (2) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 11.2 (*Mostly Met*). FIs are required to keep all records obtained through CDD measures, account files and business correspondence, for at least ten (10) years following the termination of the business relationship or after the date of the occasional transaction (Article 11 (1) of the AML/CFT Proclamation 2014 (as amended)). However, FIs are not required to keep the results of any analysis undertaken.

Criterion 11.3 (*Met*). FIs are required to ensure that the records referred to in Article 11 (2) of the AML/CFT Proclamation of Rec.11.1 are transaction records which are sufficient to permit the reconstruction of individual transactions to provide, if necessary, evidence for the prosecution of criminal activity (Article 11 (3) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 11.4 (*Met*). FIs are required to ensure that all CDD information and transaction records are available to comply with information requests from Competent Authorities (Article 11 (2) of the AML/CFT Proclamation 2014 (as amended)).

Weighting and Conclusion

FIs are required to maintain all records of transactions and CDD information as envisaged in R.10. There is a minor deficiency in the absence of a specific obligation to keep a record of the results of any analysis undertaken on the information for at least five years.

Eritrea is rated Largely Compliant with R. 11.

Recommendation 12 – Politically Exposed Persons (PEP)

Article 2 (23) of the AML/CF Proclamation, 2024 (as amended) defines a Politically Exposed Person to mean “any person who is or has been entrusted with prominent public functions as well as members of such person’s family or those closely associated with him/her”. The provision does not distinguish between domestic and foreign PEPs, which means that Eritrea applies same requirements to both categories of PEPs. Further, the law does not extend to international organisations.

Criterion 12.1 (*Partly Met*). In relation to foreign PEPs, in addition to performing the CDD measures required under Recommendation 10, financial institutions are required to:

- a) **(Met):** Put in place risk management systems to determine whether a customer or the beneficial owner is a PEP Article 17 (a) & (b) of Legal Notice No.130/2018. Article 2 (12) (c) of the AML/CFT Proclamation 2014 (as amended) includes PEP as a high-risk category of customer and should therefore be subjected to enhanced or specific customer due diligence measures.
- b) **(Met):** Obtain senior management approval before establishing (or continuing, for existing customers) such business relationships (Article 6 (9) & (11) of the AML/CFT Proclamation 2014 (as amended)).
- c) **(Met):** Take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs (Article 6 (13) of the AML/CFT Proclamation 2014 (as amended)); and
- d) **(Met):** Conduct enhanced ongoing monitoring of that relationship (Article 6 (17) of the AML/CFT Proclamation 2014 (as amended) as read with Articles 17 (a) and 17 (b) (iii) of the Legal Notice No. 130/2018).

Criterion 12.2 (Partly Met). In relation to domestic PEPs or persons who have been entrusted with a prominent function by an international organization, in addition to performing the CDD measures required under Recommendation 10, financial institutions are required to:

- a) **(Partly Met):** Take reasonable measures to determine whether a customer or the beneficial owner is such a person (Article 17 (a) & (b) of Legal Notice No.130/2018). However, there is no specific obligation for FIs to take reasonable measures to determine whether a customer or the beneficial owner is a person who is or has been entrusted with a prominent function by an international organization; and
- b) **(Partly Met):** FIs are required to apply the measures identified in Criterion 12.1(b)-(d) whenever the FI determines the risk of ML/TF is high in relation to a domestic PEP (Article 17 (a) & (b) of Legal Notice No.130/2018) However, there is no obligation for FIs to adopt measures in Criterion 12.1 (b) to (d) in cases when there is higher risk business relationship with persons who are or have been entrusted with a prominent function by an international organization.

Criterion 12.3 (Partly Met). The definition of PEP in Article 2 (23) of the AML/CFT Proclamation 2014 (as amended) includes members of a PEP's family or those closely associated with the PEP as PEPs. Therefore, FIs are required to apply the relevant requirements of criteria 12.1 and 12.2 to family members or close associates of all types of PEP. However, the requirement does not include family or closely associated persons who are or have been entrusted with a prominent function by an international organization.

Criterion 12.4 (Not Met). There is an obligation which requires that for life insurance policies, FIs should

take reasonable measures to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs and should occur latest at the time of the payout. Additionally, there are no provisions which stipulate that for identified higher risks circumstances for life insurance policies for PEPs FIs should inform senior management before the payout of the policy proceeds, conduct enhanced scrutiny on the whole business relationship with the policyholder, and consider making a suspicious transaction report.

Weighting and Conclusion

There are major deficiencies in the AML/CFT Proclamation 2014 (as amended) as the specific measures relating to PEPs do not lay down the condition of territoriality since PEPs are not categorised as domestic and foreign PEP. Additionally, persons who are or have been entrusted with a prominent function by an international organization are not defined as PEPs. Furthermore, there is no requirement for FIs to apply the relevant requirements of criteria 12.1 and 12.2 to family members or close associates of persons who are or have been entrusted with a prominent function by an international organization. In relation to life insurance policies, there is no specific provision requiring FIs to take reasonable measures to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs.

Eritrea is rated Partially Compliant with R. 12.

Recommendation 13 – Correspondent banking

Criterion 13.1 (*Partly Met*). In relation to cross-border correspondent banking and other similar relationships,

- a) **(*Met*):** FIs are required to gather sufficient information about a respondent institution to understand fully the nature of the respondent’s business, and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a ML/TF investigation or regulatory action Article 8 (1) (a) of the AML/CFT Proclamation 2014 (as amended).
- b) **(*Met*):** FIs are required to assess the respondent institution’s AML/CFT controls (Article 8 (1) (a) of the AML/CFT Proclamation 2014 (as amended)).
- c) **(*Not Met*):** There is no specific obligation for FIs to obtain approval from senior management before establishing new correspondent relationships; and
- d) **(*Not Met*):** There is no provision which requires FIs to clearly understand their respective AML/CFT responsibilities.

Criterion 13.2 (*Partly Met*): With respect to “payable-through accounts,” FIs are required to satisfy

themselves that the respondent bank:

- a) **(Met)**: Has performed CDD obligations on its customers that have direct access to the accounts of the correspondent bank (Article 8 (2) (a) of the AML/CFT Proclamation 2014 (as amended)); and
- b) **(Mostly Met)**: is able to provide relevant CDD information upon request to the correspondent bank (Article 8 (2) (b) of the AML/CFT Proclamation 2014 (as amended)). However, there is no obligation for FIs to provide relevant CDD information beyond customer identification data e.g. ongoing monitoring reports.

Criterion 13.3 (Met): Article 6 of the Legal Notice stipulates that a shell bank shall not be established or permitted to operate in Eritrea and prohibits Eritrean FIs from establishing correspondence or other related relationships with foreign shell banks. Furthermore, Article 8 (4) of the AML/CFT Proclamation stipulates that FIs should satisfy themselves that foreign countries' respondent banks do not allow business relationships with shell banks.

Weighting and Conclusion

The measures provided for by the AML/CFT proclamation on correspondent banking relationships are consistent with the FATF standard in the context of the State of Eritrea. However, there are major deficiencies including the absence of specific obligation for FIs to obtain approval from Senior management before establishing new correspondent relationships and the scope of the obligation on respondent FIs to provide relevant customer identification data upon request to the correspondent bank only covers a limited aspect of CDD information (i.e. customer identification data). Furthermore, there is no provision which requires FIs to clearly understand their respective AML/CFT responsibilities. **Eritrea is rated Partially Compliant with R.13**

Recommendation 14 – Money or value transfer services

Criterion 14.1 (Met). MVTS are licensed by the Bank of Eritrea (Article 5 (2) (d) 93/1997 as read with Article 6 of the Proclamation No. 94/1997).

Criterion 14.2 (Not Met). Eritrea did not demonstrate taking any action with a view to identifying natural or legal persons that carry out MVTS without a licence or registration. Additionally, Eritrea did not demonstrate applying proportionate and dissuasive sanctions on any natural or legal person for carrying out MVTS without a licence or registration.

Criterion 14.3 (Met). The MVTS is subjected to monitoring for AML/CFT compliance by the BE.

Criterion 14.4 - 14.5 (N/A). The MVTS does not use Agents but its own branches/outlets for the delivery of its services.

Weighting and Conclusion

There are moderate deficiencies relating to failure to demonstrate action taken to identify and prevent illegal MVTS and take necessary sanctions that are proportionate and dissuasive when offenders are detected. The MVTS licensed and supervised for AML/CFT by the BE and does not use agents for its business operations.

Eritrea is rated Partially Compliant with R.14

Recommendation 15 – New technologies

New Technologies

Criterion 15.1 (N/A). The State of Eritrea and FIs have not identified and assessed the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. During the on-site visit, the Authorities stated that the Country and FIs have not developed new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products.

Criterion 15.2 (Not Met). There is no specific obligation for FIs to undertake the risk assessments prior to the launch or use of such products, practices and technologies; and take appropriate measures to manage and mitigate the risks.

Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs)

Criteria 15.3, 15.4, 15.6, 15.8, 15.9 & 15.11 (Not Met). There are no specific provisions which require compliance with these criteria.

Criterion 15.5 (Not Met). Eritrea has not taken action to identify natural or legal persons that carry out VASP activities without the requisite license or registration and apply appropriate sanctions to them.

Criterion 15.7 (Not Met). The Competent Authorities and Supervisors have not established guidelines, and provide feedback, which will assist VASPs in applying national measures to combat ML/TF in line with R.34, and, in particular, in detecting and reporting suspicious transactions.

Criterion 15.10 (Not Met). With respect to targeted financial sanctions, Eritrea has not ensured that the communication mechanisms, reporting obligations and monitoring referred to in criteria 6.5(d), 6.5(e), 6.6(g), 7.2(d), 7.2(e), 7.3 and 7.4(d) apply to VASPs.

Weighting and Conclusion

There is no evidence that Eritrea and FIs have developed new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. However, the requirements of R.15 regarding the obligation for FIs to undertake ML/TF

risk assessment prior to the launch or use of such products, practices and technologies; and take appropriate measures to manage and mitigate the risks from new technologies are not provided for under the legal framework of Eritrea. Additionally, regarding Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs) Eritrea has not taken any action to identify, assess, and understand the risks. There is no legal provision for licensing or registering VASPs and no specific action has been taken to identify natural or legal persons that carry out VASP activities without the requisite license or registration and apply appropriate sanctions to them. These are major deficiencies.

Eritrea is rated Non-Compliant with Recommendation 15.

Recommendation 16 – Wire transfers

Ordering Financial Institutions

Criterion 16.1 (Not Met). There is no specific requirement for FIs to ensure that all cross-border wire transfers of USD/EUR 1,000 or more are always accompanied by required and accurate originator information and required beneficiary information set out under (a) and (b) of this criterion.

Criteria 16.2 (Not Met). There is no provision which requires that where several individual cross-border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries, the batch file should contain required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country; and the FI to include the originator's account number or unique transaction reference number.

Criterion 16.3 (Not Met). Whereas there is a specific requirement for FIs to ensure that all cross-border wire transfers are always accompanied by required and accurate originator information and required beneficiary information set out under C.16.1 (a) and (b), Eritrea applies a *de minimis* threshold of USD 10,000 for all cross-border wire transfers which is higher than the FATF Standards threshold of USD 1,000 (Article 16 (10) of Legal Notice No.130/2018.).

Criterion 16.4 (Met). There is no specific obligation which requires that for information mentioned in criterion 16.3, FIs need not be verified for accuracy. However, the FI are required to verify the information pertaining to its customer where there is a suspicion of ML/TF regardless of any exemptions or thresholds. (Article 8(1) of AML/CFT Proclamation 2014 (as amended) read together with Article 6 (5) (c) of the AML/CFT Proclamation 2014 (as amended).

Criterion 16.5 (Not Met). There is no specific obligation which require that for domestic wire transfers, the ordering FI should ensure that the information accompanying the wire transfer includes originator information as indicated for cross-border wire transfers, unless this information can be made available to the beneficiary financial institution and appropriate authorities by other means.

Criterion 16.6 (Not Met). There is no specific provision which requires that where the information accompanying the domestic wire transfer can be made available to the beneficiary FI and appropriate

authorities by other means, the ordering FI need only be required to include the account number or a unique transaction reference number, provided that this number or identifier will permit the transaction to be traced back to the originator or the beneficiary. Additionally, there is no requirement for FIs to make the information available within three (03) business days of receiving the request either from the beneficiary FI or from appropriate competent authorities nor is there an enabling requirement for Law Enforcement Authorities to compel immediate production of such information.

Criterion 16.7 (Not Met). The ordering FI is required to maintain all originator and beneficiary information collected, in accordance with R.11 (Article 11 (2) of the AML/CFT Proclamation 2014 (as amended)). However, on account of Article 9 (1) of the AML/CFT Proclamation 2014 (as amended) all records of wire transfers exceeding USD 1,000 and below USD 10,000 or its equivalent in other convertible currencies, for international transactions (if applicable) may not be maintained in accordance with R.11.

Criterion 16.8 (Not Met). There is no specific requirement which prohibits ordering FIs from executing wire transfers if it does not comply with the requirements specified in criteria 16.1-16.7.

Intermediary Financial Institutions

Criterion 16.9 (Not Met): There is no provision which requires intermediary FIs to ensure that all originator and beneficiary information that accompanies a wire transfer is retained with it when conducting cross-border wire transfers.

Criterion 16.10 (Partly Met). FIs in Eritrea are required to keep a record, for at least 10 years, of all the information received or the records of its transactions. (Article 11 (2) of the AML/CFT Proclamation 2014 (as amended)).

Criterion 16.11 (Not Met). There is no provision which requires FIs which act as intermediary FIs to take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or required beneficiary information.

Criterion 16.12 (Partly Met). FIs are generally required to have risk-based policies and procedures for determining:

- a) **(Partly Met):** when to execute, reject, or suspend a wire transfer lacking the required originator (Article 9 (2) of the AML/CFT Proclamation 2014 (as amended)). However, there is no specific obligation for FIs to have risk-based policies and procedures for determining: when to execute, reject, or suspend a wire transfer lacking the required beneficiary information and
- b) **(Not Met):** There is no specific obligation for FIs to take appropriate follow-up action in case the FIs determine that a wire transfer lacked required originator and beneficiary information.

Beneficiary Financial Institutions

Criterion 16.13 (Not Met). There is no specific obligation for the beneficiary FIs to take reasonable

measures, which may include post-event monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator information or required beneficiary information.

Criterion 16.14 (*Partly Met*). Eritrea is required to keep a record, for at least 10 years, of all the information received or the records of its transactions. (Article 11 (2) of the AML/CFT Proclamation 2014 (as amended)). However, there are no specific obligations which require that for cross border wire transfers above USD 1,000 or its equivalent in any convertible currency, the beneficiary FI should verify the identity of the beneficiary if the identity has not been previously verified.

Criterion 16.15 (*Partly Met*). FIs are generally required to have risk-based policies and procedures for determining:

- a) (***Partly Met***): when to execute, reject, or suspend a wire transfer lacking required originator (Article 9 (2) of the AML/CFT Proclamation 2014 (as amended)). However, there is no specific obligation for FIs to have risk-based policies and procedures for determining: when to execute, reject, or suspend a wire transfer lacking the required beneficiary information and
- b) (***Not Met***): There is no specific obligation for FIs to take appropriate follow-up action in case the FIs determine that a wire transfer lacked the required originator and beneficiary information.

Money or Value Transfer Service Operators

Criterion 16.16 (*N/A*). Eritrea does not have MVTS providers which operate in other countries directly or through their agents.

Criterion 16.17 (*N/A*). MVTS providers who control both the ordering, and the beneficiary side of a wire transfer do not operate in Eritrea.

Implementation of Targeted Financial Sanctions (TFS)

Criterion 16.18 (*Met*). FIs are required to take freezing action and comply with prohibitions from conducting transactions with designated persons and entities, as per obligations set out in the relevant UNSCRs relating to the prevention and suppression of terrorism and terrorist financing, such as UNSCRs 1267 and 1373, and their successor resolutions (Article 35 (1) of AML/CFT Proclamation 2014 (as amended)).

Weighting and Conclusion

Commercial banks in Eritrea operate as originator and beneficiary institutions but the FXB operate only as beneficiary FIs for cross border wire transfers. However, there are major shortcomings including:

- Eritrea applies a *de minimis* threshold of USD 10,000 for all cross-border wire transfers which is

higher than the FATF Standards threshold of USD 1,000 (Article 16 (10) of Legal Notice No.130/2018), therefore, there is no obligation for FIs to ensure that all cross-border wire transfers of USD/EUR 1,000 or more are always accompanied by required and accurate originator information and required beneficiary information set out under (a) and (b) of this C16.1. Furthermore, FIs are not obliged to keep records of wire transactions below USD10,000.

- Absence of obligation for the FIs to have risk-based policies and procedures for determining when to execute, reject, or suspend a wire transfer lacking required beneficiary information; and taking appropriate follow-up action.

As Originator FI

- Where several individual cross-border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries, there is no obligation for FIs to ensure that the batch file contains required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country; and the FI to include the originator's account number or unique transaction reference number.
- Absence of obligation for the FI to ensure that the information accompanying the wire transfer includes originator information, unless this information can be made available by other means, and the attendant obligations in C.16.3.
- Absence of obligation for the FI to make the information available within three (03) business days of receiving the request from relevant entities. Additionally, there is no provision for LEA to compel immediate production of such information.
- Absence of obligation of FIs not to execute wire transfer if it does not comply with the requirements specified in Criteria 16.1-16.7.

As an Intermediary FI

- Absence of provision to ensure that all originator and beneficiary information that accompanies a wire transfer is retained with it when conducting cross-border wire transfers.
- Absence of obligation for FIs to take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or required beneficiary information.

As a Beneficiary FI

- Absence of obligation to conduct post-event monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator information or required beneficiary information. **Eritrea is rated Non-Compliant with R.16.**

Recommendation 17 – Reliance on third parties

Criteria 17.1 – 17.3 (N/A). Eritrea does not permit FIs to rely on third parties or introduced business as set out in R.17

Weighting and Conclusion

Eritrea does not permit reliance on third parties or introduced business as envisaged in R.17.

Eritrea is rated N/A with R.17.

Recommendation 18 – Internal controls and foreign branches and subsidiaries

Criterion 18.1 (Mostly Met).

- a) **(Met):** FIs are required to implement compliance management arrangements, including the appointment of a compliance officer at the management level (Article 5(2) of AML/CFT Proclamation 2014 (as amended)).
- b) **(Not Met):** There is no specific obligation for FIs to implement programmes against ML/TF which includes screening to ensure high standards when hiring employees.
- c) **(Met):** FIs are required to implement an ongoing employee training programme (Article 12 (1) of the AML/CFT Proclamation 2014 (as amended)).
- d) **(Met):** FIs are required to implement an independent audit function to test the system (Article 5 (3) of AML/CFT Proclamation 2014 (as amended)).

Criterion 18.2 - 18.3 (N/A): Eritrea does not have FIs operating outside of the country.

Weighting and Conclusion

There are minor deficiencies as FIs are not obliged to implement program against ML/TF which have regard to ML/TF risk and the size of the FI such as the screening procedure to ensure high standards when hiring employees. However, in practice, all employees in the FIs in Eritrea are government officers recruited in accordance with the Government recruitment process which includes screening of employees.

Eritrea is rated Largely Compliant with R. 18.

Recommendation 19 – Higher-risk countries

Criterion 19.1 – 19.3 (*Not Met*). Eritrea has no requirements for FIs to implement the measures set out in R.19.

Weighting and Conclusion

Eritrea has no measures or mechanisms applicable to R.19.

Eritrea is rated Non-Compliant with R. 19.

Recommendation 20 – Reporting of suspicious transaction

Criterion 20.1 (*Not Met*). FIs are required to promptly report suspicious transactions when there are reasonable grounds to suspect that the transactions contain funds from proceeds of crime, linked to ML and TF. However, there is no prescription of promptness in the absence of specified timing, form and manner of reporting suspicious transactions to the FIU. Furthermore, Eritrea has major deficiencies in respect of not fully designating the predicate offences from which proceeds could be generated and laundered as assessed under c.3.2 of R.3. (Article 23 of AML/CFT Proclamation 175/2024 as read with Article 7 of Proclamation 181/2018).

Criterion 20.2 (*Met*). FIs are required to report all suspicious transactions, including attempted transactions regardless of the amount of the transaction. (Article 23 of the AML/CFT Proclamation 2014 (as amended) read with Article 7 (a) & (b) of Legal Notice 2018.

Weighting and Conclusion

Significant deficiencies exist regarding the manner and timeliness of filing STRs and in relation to uncovered predicate offences. However, FIs are required to report attempted transactions regardless of their value.

Eritrea is rated Non-Compliant with Recommendation 20.

Recommendation 21 – Tipping-off and confidentiality

Criterion 21.1 (*Mostly Met*). Article 27 (1) of the AML/CFT Proclamation 2014 (as amended) protects the FIs, or directors, other officers or employees from criminal, civil, disciplinary or administrative proceedings for breach of banking or professional secrecy of contract if they report their suspicions in good faith to the FIU. However, it is unclear whether this protection is available even if FI, directors, other officers or employees did not know precisely what the underlying criminal activity was, and regardless of whether illegal activity actually occurred.

Criterion 21.2 (Met). Article 26 of the AML/CFT Proclamation 2014 (as amended) read with Article 11 (1) of the Legal Notice 2018 prohibits FIs and their directors, officers and employees from disclosing the fact that an STR or related information is being filed with the Financial Intelligence Unit. Furthermore, information sharing under Recommendation 18 is not prohibited.

Weighting and Conclusion

The legal framework protects FIs, directors and individuals when submitting information on STRs to the FIU. However, it is not clear that this protection is available even if the FIs, directors, other officers or employees did not know precisely what the underlying criminal activity was when submitting the STR to the FIU and regardless of whether illegal activity occurred when the STR was submitted.

Eritrea is rated Largely Compliant with R. 21.

Recommendation 22 – DNFBPs: Customer due diligence

The CDD requirements in the AML/CFT Proclamation 2014 (as amended) do not apply to the DNFBPs. Therefore, generally, Additionally, based on Eritrea's specific characteristics, some of the DNFBPs are not operational, while others which are operational are partially covered by Recommendations 22.

Criterion 22.1 – 22.5 (Not Met). DNFBPs in Eritrea are not required to comply with the requirements set out in R.10 - 12, R.15 and R.17.

Weighting and Conclusion

There are no obligations for DNFBPs to comply with the Recommendations set out in R.22. **Eritrea is rated Non-Compliant with Recommendation 22.**

Recommendation 23 – DNFBPs: Other measures

Criterion 23.1 (Not Met). The major deficiencies identified in R.20 equally apply to DNFBPs.

Criterion 23.2 - 23.4 (Not Met). There is no specific obligation which requires that in the situations set out in Criterion 23.1, lawyers should comply with the internal controls' requirements set out in R. 18 and the higher-risk countries requirements set out in R.19.

Criterion 23.4 (Mostly Met): The minor deficiencies identified in R.21 equally apply to DNFBPs.

Weighting and Conclusion

The major shortcoming in most of the criteria, with mostly met for 23.5 in respect R.21.(prohibition of tipping off).

Eritrea is rated Non-Compliant with Recommendation 23.

Recommendation 24 – Transparency and beneficial ownership of legal persons

Criterion 24.1 (*Partly Met*)

The Commercial Code 1960 identifies and describes different types and basic features of legal persons in Eritrea and the process for creating these entities for commercial purpose, while the Civil Code 1960 identifies and describes the different types and basic features of legal persons that are created without interest to make a profit. However, the two Proclamation do not provide for obtaining and recording beneficial ownership information.

Criterion 24.2 (*Not Met*)

Eritrea has not assessed the ML/TF risks of all types of legal persons created in the country.

Basic information

Criterion 24.3 (*Met*). All businesses that are established in Eritrea are required to register with the Ministry of Trade and Industry: Business Licensing Office. The register records the company name, proof of incorporation, legal form and status, the address of the registered office, basic regulating powers, and a list of directors. This information is publicly available [Articles 313 and 314 of the Commercial Code 1960].

Criterion 24.4 (*Not Met*). Companies are not required to maintain the information set out in criterion 24.3.

Criterion 24.5 (*Mostly Met*). Alterations in the registration is required to be made within two months from occurrence of a fact making necessary an alteration [Article 108 of the Commercial Code 1960]. Moreover, it is an offence to make inaccurate statements in relation to registration [Article 116 of the Commercial Code]. However, these requirements do not cover criterion 24.4.

Beneficial Ownership Information

Criterion 24.6 (*Partly Met*). Only financial institutions are mandated to collect beneficial ownership information during the CDD process pursuant to Article 6(7) of the Proclamation No 175/2014, (the Anti-Money Laundering and Combating Financing of Terrorism Proclamation). However, it is not stipulated whether this information can be determined in a timely manner by a competent authority.

Criterion 24.7 (*Not Met*). There is no requirement to keep the beneficial ownership information as accurate and as up-to-date as possible.

Criterion 24.8 (a), (b), (c) (*Not Met*). Since there is no requirement for keeping of beneficial ownership, there is also no obligation on companies to ensure that there is an individual who is in the Eritrean territory that can be held accountable for making available beneficial ownership information. Beneficial information in Eritrea is mentioned in relation to customer due diligence at an onboarding stage, placing an obligation on financial institutions to verify the accuracy of beneficial information. However, there is no obligation placed on financial institutions to ensure that this information is accurate and up to date as required by standards.

Criterion 24.9 (*Partly Met*). Eritrea obliges only FIs to collect beneficial information as part of the customer due diligence process. FIs are required to keep all records obtained through CDD measures, account files and business correspondence, for at least ten (10) years following the termination of the business relationship or after the date of the occasional transaction (Article 11 (1) of the AML/CFT Proclamation 2014).

Other requirements

Criterion 24.10 (*Not Met*). Competent authorities have indirect access to basic information held by the Business Licensing Office. The information can be requested via writing at a minimal fee of 15 NER which is equivalent to 3.4 USD. This information can be made available to the financial institutions between 3 and 5 days. Because the Business Licensing Office does not hold beneficial information, Financial Institutions hold beneficial information. However, the information held by the financial institutions can only be accessed by FIU and not to other competent authorities as provided for in Article 30(7) of the AML/CFT Proclamation.

Criterion 24.11 (*Not Met*). Eritrea does not have legal requirements and mechanisms in place to ensure that there is no misuse of bearer shares or share warrants. Even though the law does not prohibit the use of bearer shares, the practise of using bearer shares is not prevalent in Eritrea. It is for this reason that there is no mechanism in place for the protection of misuse of bearer shares.

Criterion 24.12 (*Not Met*). Eritrea does not have a legal framework that allows for bearer shares and bearer share warrants, nor does it have a legislation that prohibits bearer shares and bearer share warrants. Since this is not an instrument that is used in Eritrea, there are no sanctions in place for the misuse of such instruments.

Criterion 24.13 (*Not Met*). There is a sanction for providing inaccurate information in the registration. Other than this, there are no sanctions stipulated for failure to comply with the requirements.

Criterion 24.14 (*Not Met*). It is not explicitly stated that Eritrea can rapidly provide international cooperation in relation to basic and beneficial information.

Criterion 24.15 – (*Not Met*). Eritrea has not demonstrated that it can monitor the quality of assistance it receives from other countries in response to requests for basic and beneficial ownership information or requests for assistance in locating beneficial owners residing abroad.

Weighting and Conclusion

It should be noted that in Eritrea legal persons are businesses and associations. Businesses are private entities that are established by natural persons for commercial purposes. Associations on the other hand are more formations geared towards social matters and do not engage in commercial business. In addition,

the budgets of associations are provided for and monitored by the Ministry in line with the set objectives of the association. In this regard, more emphasis was placed on businesses as opposed to associations. While Eritrea collects basic information on business organisations, this information is not exhaustive and does not include beneficial ownership information. Beneficial information is said to be collected by financial institutions and due to non-exhaustive verification measures taken, the information collected by the FIs does not meet the standard of beneficial ownership as provided for in the FATF recommendation. There are measures in place to ensure the accuracy, up to date and reliability of basic information. Beneficial information is not up to date and does not seem to be accurate and reliable. There is limited access to the information that is kept by the Business Licensing Offices and competent authorities do not have access to beneficial information held by FIs. There are also no mechanisms put in place to safeguard the misuse of bearer shares, nominee directors and nominee shareholding. The sanctions that are imposed for the misuse of these instruments and mechanisms are not dissuasive enough to deter misuse. In arriving at this conclusion more weight was given to legal persons that are created for commercial purposes.

Eritrea is rated Non-Compliant with Recommendation 24.

Recommendation 25 – Transparency and beneficial ownership of legal arrangements

Not Applicable:

Eritrea does not have a legal or regulatory framework for the establishment of legal arrangements and the creation of legal persons for non-commercial purposes is prohibited. As such there is no formal system for registration of legal arrangements in Eritrea.

Recommendation 26 – Regulation and supervision of financial institutions

Criterion 26.1 (Mostly Met). Article 28(2) of the AML/CFT Proclamation No.175/2014 designates the Bank of Eritrea for regulation and AML/CFT supervision of all financial institutions (except for micro-finance activities) in Eritrea for compliance with AML/CFT requirements. The Ministry of Finance and National Development is responsible for the regulation and operations of the micro-finance sector. At the time of onsite mission, there was one micro-finance programme providing financial services throughout the country overseen by the Ministry of Finance. The programme has not yet been authorised to operate as a financial institution by the BE.

Criterion 26.2 – (Mostly Met). The Business Licensing System Control and Business Licensing Office Establishment Proclamation No.72/2000 established the Ministry of Trade and Industry as a body responsible for issuing business licenses for persons wishing to engage in any business activity in Eritrea. To that end, Article 20 empowers the Bank of Eritrea as the regulatory body to set requirements for becoming a financial institution including powers to inspect, monitor and supervise any licensed financial institution. Article 6(1) of the Financial Institutions Proclamation No.94/1997 requires financial institutions to fulfil market entry requirements including fit and proper checks for license approval by the Bank of Eritrea. Article 11 of the Proclamation, further, creates an offense to conduct a financial activity

without a license which is punishable under Article 12(2). Article 6 of the AML/CFT Regulation Legal Notice No.130/2018 prohibits the operation of shell banks in Eritrea. As mentioned under R.14, MVTs are subject to licensing by the Bank of Eritrea (Article 3(2)(e) of the Financial Institutions Proclamation No.94/1997). Microfinance, which operates as a Programme under the umbrella of the Ministry of Finance and National Development, has not yet been authorized to operate as a financial institution.

Criterion 26.3 (*Mostly Met*). Article 6(3) of the Financial Institutions Proclamation No.94/1997 empowers the Bank of Eritrea to prescribe requirements for licensing a financial institution. Article 28(1) of the AML/CFT Proclamation No.175/2014 further requires supervisors to adopt necessary measures to establish appropriate criteria for owning, controlling or participating in the directorship, management or operations of a financial institution.

Banks: Bank of Eritrea has issued a Directive (No.6/2000) for banks which prescribes the requirements for a licensee to operate as a financial institution in Eritrea. To prevent criminals from obtaining shareholding or management positions in a bank, the directors and chief executive officer of the bank should provide certificates of criminal records and a statement indicating whether they have ever been arrested, indicted, convicted of violation of the law or ever been a partner, director or officer of an enterprise that was subject to criminal indictment or other criminal proceedings. Although there is no similar requirement for shareholders and beneficial owners of the bank, all banks in Eritrea are state-owned.

Foreign exchange bureaus: section 7 of Directive No.1/2003 on Operations of Foreign Exchange Bureau requires an applicant, who is a sole proprietor, to be a person of integrity and must not have been convicted for fraud and embezzlement. Similarly, for partnerships and companies, the person selected by a partnership or a person appointed by the applicant through the board's resolution in the case of a company must be a person of integrity and must not have been convicted of fraud and embezzlement. The fit and proper standards do not apply to significant owners or beneficial owners. However, just like in the case of banks, the foreign exchange bureau in Eritrea is state owned.

Insurance company and Microfinance Programme: There is no licensing process for insurance companies in Eritrea. Similarly, the fit and proper rules for the Microfinance have not been developed. Notwithstanding this, the government is the majority shareholder of an existing insurance company (89 percent shareholding) while the microfinance is wholly owned by government.

Criterion 26.4 (*Mostly Met*).

- a. ***Core Principles Institutions (Mostly met)*** - Core Principle Institutions in Eritrea are subject to regulation and supervision for AML/CFT purposes by the BE except for microfinance. The BE undertakes supervisory actions in the sector including inspections and issuance of guidance. FIs in Eritrea are state-owned and do not operate as a group outside of the country and therefore are not part of, or operate, as a consolidated group.

- b. ***All other financial institutions (Mostly Met)*** - MVTS and Bureau de Change activities are subject to AML/CFT regulation and supervision in the same manner as the Core Principles FIs by the BE.

Criterion 26.5 (Not met). Supervisors have no framework or system in which they indicate prioritisation of supervision activities based on risk levels for:

- (a) frequency - how often onsite and offsite are conducted based on risk rating; and
- (b) intensity - rigor of examination of the obligations considered to be at higher risk of misuse for ML and TF. In the absence of a process, manuals or procedures as well as risk rating of the financial institutions, it was difficult for the assessment team to determine the frequency and intensity of on-site and off-site AML/CFT supervision of financial institutions based on:
 - (a) The ML/TF risks and the policies, internal controls and procedures associated with the institution or group, as identified by the supervisor's assessment of the institutions or group's risk profile;
 - (b) The ML/TF risks present in the country; and
 - (c) The characteristics of financial institutions or groups, in particular, the diversity and number of financial institutions and the degree of discretion allowed to them under the risk-based approach.

Criterion 26.6 (Not met). As at the time of the onsite, designated AML/CFT supervisors for financial institutions had not commenced supervisory actions in Eritrea due to the absence of capacity. As a result, the supervisors have not reviewed the assessment of ML/TF risk profiles of financial institutions periodically and when there are major events or developments in their management and operations.

Weighting and Conclusion

All FIs are licensed by the BE except for financial services under the Microfinance programme of the Ministry of Finance which weigh less in terms of risks and materiality. Eritrea has designated the Bank of Eritrea to supervise financial institutions in Eritrea for compliance with AML/CFT requirements. Financial institutions are not subject to AML/CFT supervision on a risk-sensitive basis.

Eritrea is rated Partially Compliant with Recommendation 26.

Recommendation 27 – Powers of supervisors

Criterion 27.1 (Met). Article 14(2) and Article 28(2-3) of the AML/CFT Proclamation give both the FIU and the Bank of Eritrea powers to supervise financial institutions for AML/CFT purposes.

Criterion 27.2 (Met). Article 14 (2)(a) of the AML/CFT Proclamation gives the FIU the authority to inspect financial institutions for AML/CFT purposes. The Bank of Eritrea, being the supervisory authority is also authorized to conduct off-site and on-site inspections, for AML/CFT purposes (Article 28(2-3)).

Criterion 27.3. (Mostly Met). Article 14(2) of the AML/CFT Proclamation No.75/2014 as read with Article 18(2) of Proclamation 181/2018 empowers the FIU and the BO to request records of information kept by FIs to conduct inspections on FIs (except for microfinance) to ensure compliance with AML/CFT obligations.

Criterion 27.4 (Partly Met). Articles 18 and 29 AML/CFT Proclamation empowers the BE and the FIU to impose a wide range of sanctions for failure to comply with AML/CFT requirements by FIs. The sanctions apply to DNFBPs only with respect of STRs and tipping off prohibition obligations, though the sector has no supervisor to impose the sanctions (See R.35 for details).

Weighting and Conclusion

Supervisory authority for financial institutions has a wide range of powers including powers to conduct inspections and impose sanctions for failure to comply with the obligations of the Proclamation. However, such powers do not extend to compelling production of information from the financial institutions.

Eritrea is rated Largely Compliant with Recommendation 27.

Recommendation 28 – Regulation and supervision of DNFBPs

Background and Context

DNFBP activity in Eritrea has a limited presence. Lawyers and Accountants when they prepare documents for incorporation or for a buyer and seller involved in a real estate transaction. The rest of the DNFBPs do not exist (i.e., real estate agents, notaries, DPMS and TCSPs).

Criterion 28.1 (Not applicable).

- a) Article 5(1) of the Business Licensing System Control and Business Licensing Office Establishment Proclamation No.72/1995 prohibits activities related to casino operations. Article 744 (b-c) of the Penal Code, 1957 makes it an offense to operate a lottery, gambling and betting punishable with a fine or arrest. At the time of the onsite mission, there were no casino operations in Eritrea.
- b) (N/A)
- c) (N/A)

DNFBPs other than casinos

Criterion 28.2 – 28.3 (Not Met). Eritrea has not designated an AML/CFT supervisor for DNFBPs and therefore not subject to supervision or monitoring.

Criterion 28.4 (Not Met).

- a) There is no AML/CFT supervisor to supervise or monitor DNFBPs for compliance with AML/CFT requirements and impose sanctions.
- b) There is no legal requirement for competent authorities or SRBs to take necessary measures to

prevent criminals and their associates from being professionally accredited or holding a significant share of the DNFBP.

Criterion 28.5 (Not Met). There is no AML/CFT supervisor to perform RBA on DNFBPs.

Weighting and Conclusion

Casinos are not permitted to operate in Eritrea. Other DNFBPs are not subject to AML/CFT supervision necessary to identify compliance failures for enforcement actions.

Eritrea is rated Non-Compliant with Recommendation 28.

Recommendation 29 - Financial intelligence units

Criterion 29.1 (Met). Pursuant to the AML/CFT Proclamation n° 175/2014, Eritrea established an autonomous Financial Intelligence Unit to serve as a national authority for receiving, requesting and analysing information concerning money laundering and financing of terrorism (article 13.1) and disseminating the results of analysis conducted by the FIU (article 14.1 (b) and (c).

Criterion 29.2 (Partly Met).

Criterion 29.2 (a) (Partly Met). Articles 14(1)(a) and 23 of the AML/CFT Proclamation n°. 175/2014 empowers the FIU as a central agency to receive analyse and access reports of suspicious transactions issued by FIs (except for microfinance) and FIs and DNFBPs. However, the FIU is not fully operational to execute these core functions.

Criterion 29.2 (b) (Partly Met). Under Article 24 of the Proclamation 175/2014, the FIU can receive (from FIs) cash transaction reports exceeding USD 10,000 or its equivalent in other convertible currencies, whether conducted as a single transaction or several transactions that appear to be linked. The FIU may access cash declarations at USD 10,00 or above made to the Customs Department at ports of entry and exit. However, the FIU is not fully operational to execute these functions.

Criterion 29.3 (Partly Met)

Criterion 29.3 (a) (Partly Met). The FIU has the authority to request information from any financial institution, under article 17(1) of the Proclamation n°175/2014 and obtain information from any person, subject to reporting obligations, any additional information, within the time limit set by itself. Additionally, the FIU is able to obtain and use, in addition to the information that entities report to the FIU, additional information from FIs and DNFBP under Article 4 (3) (a) of directive 1/2018, to perform its analysis properly under Article 4 (3) (a) of Directive 1/2018. However, the FIU is not fully operational to exercise these powers.

Criterion 29.3 (b) (Partly Met). The FIU has the legal power to request from any supervisory agency, as well as from law enforcement agency under Article 4 (3) (a) of directive 1/2018, information that it deems relevant for the exercise of its conferred functions. However, the FIU is not fully operational to exercise these powers.

Criterion 29.4 - (a) & (b) (Not Met). Since the FIU is not yet operational, no operational analysis and strategic analysis have been performed.

Criterion 29.5 (Partly Met). Article 14.1 (b) (c) of Proclamation 175/2014 and Article 3(2) (c) of the Directive NO.1/2018 empower the FIU to disseminate spontaneous information to LEAs where there are reasonable grounds to suspect ML or TF. Under Article 13 of the Directive NO.1/2018, the Director of the FIU may upon written request, disseminate financial intelligence information to both LEAs. There are no secured and dedicated methods developed and used for receipt of STRs and other information since the FIU has not commenced its operations.

Criterion 29.6 (Partly Met).

Criterion 29.6 (a) (Not Met). Article 14 (a) of Directive N°1/2018 empowers the Director of the FIU to develop and implement internal policy including procedures for handling, storage, dissemination, and protection of, and access to, information by the Director. However, the internal policy on information protection is not yet developed.

Criterion 29.6 (b) (Partly Met). Only the Director of the FIU has both the necessary security clearance levels and understanding of his responsibility in handling and disseminating sensitive and confidential information. The rule governing the security and confidentiality of such information, including procedures for handling, storage, dissemination, and protection of, as well as access to such information is not in place.

Criterion 29.6 (c) (Partly Met). The FIU has no functional building and information including ICT to limit access to. However, it is envisaged that the FIU will manage the control of access to its facilities and database and only authorized staff able to access the building and information (Article 14 (b) (iii) of Directive NO.1/2018). In addition, according to Article 14 (b) (v) of Directive NO.1/2018, any person who accesses financial intelligence and information on the database without authorization from the Director commits an offence shall be liable to a fine as prescribed in the AML/CFT Proclamation No. 175/2014.

Criterion 29.7 (Partly Met).

Criterion 29.7 (a) (Partly Met). Article 13 (1) of Proclamation No. 175/2014 empowers the FIU to have the authority and capacity to carry out its functions, including the autonomous decision to analyse, request and/or forward or disseminate specific information. In addition, FIU has autonomy for receiving, requesting, analysing and disseminating information concerning money laundering and financing of terrorism under Article 3 of Directive NO.1/2018. In practice, however, it could not be determined whether the FIU is able to deploy its resources and conduct its operations without undue influence since the FIU is yet to commence its operations.

Criterion 29.7 (b) (Met). Pursuant to Article 14 (2) (h) of AML/CFT Proclamation No. 175/2014, the FIU is able to enter into an agreement with any domestic government institution or agency regarding the exchange of information pertaining to money laundering and/ or terrorist financing through signing a

memorandum of understanding. Additionally, it is also able to establish relations with Foreign Counterpart Agencies on its initiative or upon request: sharing information, agreement or arrangement with the counterpart agency (Article 16 of Proclamation No. 175/2014).

Criterion 29.7 (c) (Not Met). The Authorities have identified a building for occupation by the FIU but has not happened as at the time of the onsite visit. The FIU staff currently in post are tasked with setting up the FIU and are yet to conduct the core functions of an FIU including receipt of STRs.

Criterion 29.7 (d) (Not Met). According to Article 13 (2) of Proclamation No. 175/2014, the composition, organization, operation and resources of the Financial Intelligence Unit shall be prescribed by Government directive. Article 16 of Directive No. 1/2018 stipulated the main sources of funds of the FIU. At the time of the onsite visit, there was no specific budget dedicated to the FIU with staff currently attached to the Ministry of Finance.

Criterion 29.8 (Not Met). Eritrea FIU is not yet operational and has not yet applied for membership in the Egmont Group of FIUs.

Weighting and Conclusion

Eritrea has put in place a framework to establish a FIU which gives it the power to conduct its core functions. However, the FIU has not commenced its core operations. The FIU has the authority to obtain and use additional information from reporting entities, as needed to perform its analysis properly and is empowered to make arrangements or engage independently with other domestic competent authorities or foreign counterparts on the exchange of information. The internal policy on information protection is not yet developed. The FIU has not yet commenced conducting operational analysis and strategic analysis.

Eritrea is rated Non-Compliant with Recommendation 29.

Recommendation 30 – Responsibilities of law enforcement and investigative authorities

Criterion 30.1 (Met). Designated law enforcement authorities in Eritrea that have responsibility for ensuring that money laundering, associated predicate offences and terrorist financing offences are properly investigated are the Police Force, the Security Intelligence Agency, the Immigration Department, the Inland Revenue Department of the Ministry of Finance and National Development, and the Customs Department of the Ministry of Finance and National Development [Articles 14A of Proclamation 175/2024 r/w article 4(11) of Proclamation 130/2018].

Criterion 30.2 (Not Met). There is no provision authorising the law enforcement investigators of predicate offences to pursue the investigation of any related ML/TF offences during a parallel financial investigation, nor is there a legal basis that can enable them to refer the case to another agency to follow up with such investigations, regardless of where the predicate offence occurred.

Criterion 30.3 (Partly Met). The Law Enforcement and the OAG are empowered to seize property that is or may become subject to confiscation [Article 34 r/w Article 37 of Proclamation 175/2014] On the other

hand the law empowers BE and the FIU to freeze funds associated with ML/TF. The law does not explicitly empower the FIU or the BE to identify and trace property subject to confiscation when they initiate freezing measures.

Criterion 30.4 (NA). There are no competent authorities who are not law enforcement authorities, per se, but have the responsibility for pursuing parallel financial investigations of predicate offences.

Criterion 30.5 (Not Met). The Anti-Corruption Unit within the National Security Service gathers evidence regarding any suspicion of corruption that it becomes aware of. However, this Unit is not designated to investigate ML/TF offences arising from, or related to, corruption offences. Further, the Unit is not empowered to identify, trace, and initiate freezing and seizing of assets.

Weighting and Conclusion

Eritrea has designated LEAs that have responsibility for ensuring that ML, associated predicate offences and TF are properly investigated. Eritrean laws do not however explicitly mention parallel financial investigations. It is therefore not clear whether LEAs may conduct financial inquiries into potential criminal activity in cases where a dissemination of a financial disclosure has not been initiated by the FIU. Although LEAs and OAG may initiate identification, tracing and seizure of property that is subject to confiscation, the BE and the FIU are not empowered to identify and trace property that is subject to confiscation when initiating freezing measures which are their exclusive competence under the Proclamation 175/2024. Furthermore, the Anti-Corruption Unit is not legally empowered to investigate ML/TF arising from or related to corruption offences, neither is the Unit empowered to identify, trace, and initiate freezing and seizing of assets.

Eritrea is rated Partially Compliant with Recommendation 30.

Recommendation 31 - Powers of law enforcement and investigative authorities

Criterion 31.1 (Mostly met). The investigative powers of the LEAs are broad and are set out in Proclamation 175/2014 and the Transitional Criminal Procedure Code of Eritrea (TCPCE). These allow investigators to:

- (a) use records on customer identification and on transactions from Financial Institution (Articles 11 (1)–(3) of Proclamation 175/2014). Obtaining access to financial records or customer information held by a financial institution is, however, subject to obtaining a court order.
- (b) search persons and premises (Articles 32-33 of TCPCE).
- (c) take witness statements (Articles 301-31 of (TCPCE).
- (d) seizing and obtaining evidence (Article 32 TCPCE).

Criterion 31.2 (Not met). The National Police Force and the National Security Services under the National Police and Security Forces Command employ traditional measures of investigation such as arrests and questioning, crime scene investigation, search and seizure. There are procedures for cases transferred to higher investigative bodies, ways of handling priority offences such as terrorism, corruption, drug trafficking, robbery and transnational organised crimes and procedures for unsolved cases and wanted persons which were not shared with the assessment team. The assessors could not therefore determine whether LEAs used covert operations (such as surveillance, controlled delivery and undercover operations, if any) for ML, associated predicate offences and TF investigations.

Criterion 31.3 (Partly met).

- (a) LEAs have the mandate to conduct preliminary inquiries to identify whether natural or legal persons hold or control accounts. Although the FIU has the power to request information from any financial institution, supervisory authority and/or LEAs (Article 17 (1) Proclamation 175/2014), there is no mechanism for LEAs to have access to the information except through a court order. This impedes the LEAs ability to identify in a timely manner.
- (b) Investigators may search and seize without a warrant where there is reasonable cause for suspecting that articles which may be material as evidence may be removed or concealed because of the delay in obtaining a search warrant. (Article 32 (2) (b) of the TCPCE). This enables investigators to identify assets without prior notification to the owner.

Criterion 31.4 (Not met). There is no legal coverage for competent authorities conducting ML, associate predicate offences and TF to ask for all relevant information held by the FIU

Weighting and Conclusion

Eritrean LEAs have broad powers to search persons and premises, take witness statements, seize and obtain evidence. However, it is not explicit that LEAs can use covert operations (such as surveillance, controlled delivery and undercover operations, if any) for ML, associated predicate offences and TF investigations. There is also no legal coverage for competent authorities conducting ML, associate predicate offences and TF to ask for all relevant information held by the FIU.

Eritrea is rated Partially Compliant with Recommendation 31.

Recommendation 32 – Cash Couriers

Criterion 32.1 (Partly Met). Eritrea implements a declaration system for incoming and outgoing cross-border transportation of currency exceeding 10,000 US Dollars or its equivalent in other convertible currencies by travellers according to Article 6 of the Proclamation 173/2013. This is implemented through a declaration form prepared by the Bank of Eritrea and submitted by travellers to the Eritrean Customs Officer at the port of entry or departure in Eritrea. However, transportation of BNIs and other means of transportation of physical currency through mail and cargo are not covered.

Criterion 32.2 (Partly Met). Eritrea requires a written declaration for all travellers transporting currency exceeding 10,000 US Dollars or its equivalent in other convertible currencies pursuant to Article 6 of the Proclamation No. 173/2013. Travellers submit the declaration form fulfilled to Eritrean Customs officers. This requirement does not cover BNIs.

Criterion 32.3 (N/A). Eritrea adopts a written declaration system for incoming and outgoing cross-border transportation of currency by travellers.

Criterion 32.4 (Not Met). Customs Department or a competent authority do not have the authority to request and obtain further information from the carrier about the origin of the currency and its intended use, should they fail to declare pursuant to Article 7(3) of Proclamation 173/2023. False declaration and of currency or BNI are not covered.

Criterion 32.5 (Partly Met). Pursuant to article 7 of the Proclamation No. 173/2013 stipulates proportionate and dissuasive civil and penal sanctions related to non-declaration of transportation currency above the threshold to Customs officers. However, there is no provision stipulating sanctions for persons who make a false declaration.

Criterion 32.6 (Not Met). Customs Department are not required to notify the FIU of suspicious cross-border transportation incidents nor to make all declaration information directly available to the FIU.

Criterion 32.7 (Not Met). The country has not demonstrated how coordination among customs, immigration and other related authorities on issues related to the implementation of Recommendation 32 works.

Criterion 32.8 (Partly Met). Pursuant to Article 61 “Goods” means any moveable property and includes currency. According to Article 61 (11) of the Customs Proclamation No. 112 of 2000, goods that are imported or about to be exported may be detained by an officer until the officer is satisfied that the goods have been dealt with according to this proclamation or other laws of the state of Eritrea that prohibits, restricts or controls the importation or exportation of goods and any regulations made thereunder. However, such detention does not seek to ascertain whether evidence of ML/TF may be found in cases where there is a suspicion of ML/TF or predicate offences, or where there is a false declaration. BNIs are not covered.

Criterion 32.9 (Not Met). There is no retention of records for the purpose of international cooperation as envisioned in c.32.9(a)-(c).

Criterion 32.10 (Not Met). Rules related to the use of information collected such as data integrity, confidentiality, and availability through the declaration forms are not specified to ensure their strict safeguards.

Criterion 32.11 (Partly Met).

Criterion 32.11 (a) - (b) (Partly Met). The non-submission to Customs officers of the declaration on currency transportation above the threshold, in addition to the confiscation of the money, is punishable with simple imprisonment or with a fine not exceeding fifty thousand Nakfa (Article 7 of the proc No. 173/2013). These sanctions are proportionate and dissuasive. However, sanctions to persons who are carrying out physical cross-border transportation of currency or BNIs that are related to ML/TF or predicate offences are not specified.

Weighting and Conclusion

Eritrea has implemented a declaration system related to incoming and outgoing cross-border movement of currency exceeding 10.000USD or equivalent in other currencies. However, BNIs and transportation by mail and cargo are not covered. Furthermore, there are no provisions authorising Customs Department officers or relevant competent authorities to inquire into the origin and intended use of the currency. This is despite the fact that false declaration of currency is not criminalised. Moreover, there are no mechanisms in place to coordinate the implementation of the declaration system. Although the sanctions appear proportionate and dissuasive, coupled with confiscation of currency for failure to declare, these sanctions do not extend or are not related to money laundering, terrorist financing or predicate offences. The foregoing shortcomings are major.

Eritrea is rated Non-Compliant with R.32.

Recommendation 33 – Statistics

Criterion 33.1 (Not Met). Eritrea does not maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of the AML/CFT systems, which should include keeping statistics on:

- a) STRs, received and disseminated;
- b) ML/TF investigations, prosecutions and convictions;
- c) Property frozen; seized and confiscated; and
- d) Mutual legal assistance or other international requests for cooperation made and received.

Weighting and Conclusion

Eritrea does not comply with all the criteria for recommendation 33.

Eritrea is rated Non-Compliant with Recommendation 33.

Recommendation 34 – Guidance and feedback

Criterion 34.1 (Partly Met). The BE has the power to issue guidelines to FIs for compliance with AML/CFT obligations by the sector. The BE has issued Customer Due Diligence Directive no.1/2014) which requires every FI put in place KYC measures as part of its risk management and internal control systems (Directive no.1/2014). There is no AML/CFT supervisor for the DNFBPs. The competent

authorities (e.g., BE and FIU) have not provided feedback to FIs and DNFBPs in respect of the detection and reporting of suspicious transactions.

Weighting and Conclusion

There are major deficiencies related to absence of guidance and feedback on STRs and other obligations except for CDD. The FIU is not yet operational to receive and analyse STRs from which guidance and feedback could be provided.

Eritrea is rated Partially Compliant with Recommendation 34.

Recommendation 35 – Sanctions

Criterion 35.1 (Partly Met). Eritrea has a broad range of sanctions (administrative, civil and criminal) for violations of the requirements set out in R.9 to R.23. The administrative sanctions that are applicable for failure to comply include: written warning; ordering compliance with specific instructions; ordering regular reports from the FIs on the measures it is taking; a fine in an amount not less than Thirty Thousand (30,000.00 - USD 2000) Nakfa and no greater than Fifty Thousand (50,000.00 - USD 3300) Nakfa; restricting the powers of managers, directors or controlling owners, including the appointing of an ad-hoc administrator; and suspending, restricting or withdrawing the license and prohibiting certain activities (Article 29 of Proclamation 175/2024).

Furthermore, Eritrea can impose criminal sanctions against failure to identify customers, maintain adequate and accurate information pertaining to beneficial owners and control structures, implement internal controls and report suspicious transactions to the FIU. A person who fails to undertake the above-mentioned obligations shall, upon conviction, be punishable with simple imprisonment from three months to one year or a fine not exceeding 10,000 Nakfa (Article 30 of the AML/CFT Proclamation, No175/2014). The sanctions apply to the DNFBPs in respect of STRs and tippingoff obligations only. Furthermore, the sanctions do not apply to R.6 and R.8 in the absence of the requirements.

Criterion 35.2 (Partly Met). Administrative sanctions are applicable to managers, directors or controlling owners of the financial institution in line with Article 29(5) of the AML/CFT Proclamation. However, there are no sanctions applicable to the directors and senior management of the DNFBPs.

Weighting and Conclusion

There are moderate shortcomings in meeting the requirements of Recommendation 35 namely lack of sanctions in respect of obligations that relate to targeted financial sanctions on TF and the NPO sector. DNFBPs are also not covered by the sanction regime of R35.

Eritrea is rated Partially Compliant with Recommendation 35.

Recommendation 36 – International instruments

This marks the first time Eritrea is being assessed on this recommendation, as it is the country's first-ever assessment.

Criterion 36.1 (*Partly Met*). Eritrea has acceded to the Vienna Convention in 2002 and the Palermo Convention in 2014. Eritrea is not a party to the Merida Convention and Convention on the Suppression of Financing of Terrorism.

Criterion 36.2 (*Partly Met*). Eritrea is party to only two of the four recommended conventions as indicated above. Nonetheless, Eritrea has implemented article 6 of the Palermo Convention and Article 2.1 of the TF Convention though there some shortcomings noted in the law in criminalising ML and TF.

Weighting and Conclusion

The State of Eritrea signed and acceded to the Vienna Convention on 28 January 2002 and the Palermo Convention in September 2014. However, Eritrea is not a party to the UN International Convention on the Suppression of the Financing of Terrorism, 1999 and its Annexes. Furthermore, Eritrea is also not party to the United Nations Convention against Corruption (UNCAC/Merida Convention). There are some shortcomings noted in the implementation of Palermo and TF Conventions.

Eritrea is rated in Partially Compliant with Recommendation 36.

Recommendation 37 - Mutual legal assistance

Criterion 37.1 to 37.8 (*Not Met*). Eritrea does not have a legal basis that creates an obligation to seek and render mutual legal assistance. There is also no legally designated central authority for the facilitation of mutual legal assistance. Eritrea also does not have guidelines on how mutual legal assistance should be facilitated and there is no case management system that provides for managing and tracking incoming and outgoing requests. In the AML/CFT Proclamation, there is a duty for all state organs to render international cooperation to foreign counterparts.

Eritrea is rated Non-Compliant with Recommendation 37.

Recommendation 38 – Mutual legal assistance: freezing and confiscation

Criterion 38.1 (*Partly Met*). Article 39(1) of the AML/CFT Proclamation, provides that courts must cooperate with their international counterparts on matters concerning ML and TF by providing among other things court approved provisional measures and confiscation. In addition, Article 39(2) provides for the confiscation of property connected to money laundering or the financing of terrorism, issued by a court or other competent authority of another country.

- a) Property: Eritrea has defined property that are consistent with the FATF definition and extends to responding to requests from foreign countries.
- b) Proceeds: Eritrea has defined proceeds of crime in line with the FATF definition, and the provision and the obligation of rendering mutual legal assistance placed on the courts extends to implementing provisional measures and confiscation at the request of a foreign jurisdiction.
- c) Instrumentalities of Crime: this is not covered in the scope of what can be confiscated [refer to Recommendation 4].
- d) Instrumentalities intended for: This is not covered in the scope of property that can be confiscated.
- e) Property of corresponding value is not covered in the law.

Criterion 38.2 (Met). Under Eritrean law, the assets can be confiscated only after the conclusion of a criminal trial and conviction and can only be done through a court order issued at the conclusion of the trial. However, Article 39(1) of the AML/CFT Proclamation provides that courts in Eritrea can cooperate with courts from foreign jurisdictions taking appropriate measures to provide assistance in matters concerning money laundering and terrorist financing and cooperate with international counterparts on the basis of provisional measures and court orders from another jurisdiction. This assistance, as stipulated in the law, includes court proceedings such as provisional measures, confiscation and extradition, as long as it is within the limits of Eritrean law.

Criterion 38.3 (Met). Currently, the freezing and seizure of property is a mandate that is within the Police, as provided for in Article 32 of the Eritrean Transitional Criminal Procedure Code. Where the property is funded, the police request the supervising authority, that is the Bank of Eritrea, to apply for a freezing order. The property can only be seized once a court order has been received by the Office of the Attorney General, which is the applicant. The freezing and seizure cover both instrumentalities and proceeds of crimes, and they are kept at the respective investigating police station. The property is registered in the registry book and vouchers are issued for funds. The registry book is checked on a regular basis by the responsible head and Head of Legal Services. At the conclusion of a criminal matter, the property is seized through an order of the Court that is issued as part of the judgement. The seized property is handed over to the Execution Office of the Court. The Execution office is responsible for the disposal of the property or transfer of the property to the relevant government body as directed by the court order.

Criterion 38.4 (Not met). There is no law in Eritrea that provides for the sharing of property.

Weighting and Conclusion

Eritrean law provides for the development of an Agency, which is autonomous, that is responsible for identifying, seizing and confiscating property and further has powers relating to the administration and

management of confiscated property. The Agency is not operational and currently freezing and confiscation is a collaborative effort between various government institutions. Nonetheless, the authorities are able to freeze and confiscate property. However, there are shortfalls in the law as it refers only to property obtained through money laundering and proceeds, it does not cover instrumentalities of crime and instrumentalities intended to be used in a crime. The laws do not cover other aspects of Recommendations 38.1. In addition, the law is silent in providing for cooperation with foreign counterparts and sharing of confiscated property with foreign counterparts.

Eritrea is rated Partially compliant with Recommendation 38.

Recommendation 39 – Extradition

Criterion 39.1 (*Mostly Met*).

- a) Eritrean authorities have a duty to cooperate with international counterparts for crimes related to ML and TF and this cooperation includes extradition. In addition, the Penal Code of Eritrea provides that any foreigner who commits an offence outside Eritrea takes refuge in Eritrea may be extradited in line with applicable international laws and treaties. Extradition shall be executed for the purposes of an ongoing trial even if it does not concern the State of Eritrea.
- b) There is no case management system for processing and managing extradition requests in Eritrea.
- c) The law in Eritrea does not place restrictive conditions on executing extradition requests. Responsible agencies are required by laws to execute the request in line with considering national Eritrean laws.

Criterion 39.2 (*Met*).

- a) Eritrea has a duty to extradite its nationals as provided for in Article 21(2) of the TPCE
- b) Not applicable.

Criterion 39.3 (*Met*). Dual criminality is not a requirement in the State of Eritrea, as provided for in Article 21 of the TPCE, the extradition request shall be processed at the request of the State where the offence was committed for the purpose of trial under the territorial law where the offence was committed and does not directly and principally concern the State of Eritrea.

Criterion 39.4 (*Not Met*). Eritrea does not have simplified extradition mechanisms in place.

Weighting and Conclusion

The law of Eritrea provides for extradition in line with international law, treaties and national laws of Eritrea. There is however no explicitly mentioned mechanism for managing and processing extradition requests and there is no simplified extradition mechanism in place.

Eritrea is rated Partially compliant with Recommendation 39.

Recommendation 40 – Other forms of international cooperation

General Principles

Criterion 40.1 (Partly Met). All competent authorities and courts can provide international cooperation for ML, associated predicate offenses, and TF as provided for in Article 39(1) of the AML/CFT Proclamation. Except for the FIU, there is no duty for competent authorities to spontaneously share information with their counterparts. There is also no obligation on competent authorities to provide this cooperation in a rapid and timely manner.

Criterion 40.2 (Partly Met).

- a) All competent authorities are under a duty to cooperate with their counterparts on matters relating to money laundering, terrorist financing and related predicate offences, as provided for in Article 39 of the AML/CFT Proclamation. In addition, competent authorities can further enter into agreements and arrangements with their counterparts to facilitate international cooperation.
- b) The legislation does not specify the mechanisms that should be used to cooperate with foreign counterparts. However, for the FIU, Financial Supervisors and Law Enforcement Agencies, the law does allow for entering into bilateral agreements or multilateral agreements, as means of giving effect to cooperation with foreign counterparts.
- c) There are neither clear channels stipulated for facilitating and transmitting requests, nor are there mechanisms that detail the execution of the requests once received by the Eritrean authorities.
- d) There are no mechanisms for the prioritisation and timely execution of requests.
- e) There is no provision that creates a duty to safeguard information received from foreign counterparts. Nonetheless, the over-arching general secrecy principle provided for in Article 405 of the TPCE criminalises the sharing of information gained by public servants in their line of duty as an offence.

Criterion 40.3 (Not Met). There is no time frame or period that is set for negotiating and concluding international agreements with foreign counterparts. The law only allows for the use of international agreements by the FIU, Supervisors and LEAs.

Criterion 40.4 (Not Met). There are no legal provisions compelling the giving of feedback in a timely manner upon request.

Criterion 40.5 (Met).

- a) Eritrea does not impose unreasonable restrictions on providing or exchanging information and requests involving fiscal matters are not a bar to providing information.
- b) Eritrea does not prohibit the exchange of information on the basis of secrecy or confidentiality.
- c) Eritrea does not prohibit the exchange of information or assistance based on the fact that there is an inquiry, investigation or proceeding underway.
- d) Eritrea does not prohibit the sharing of information on the basis that the nature or status of the requesting foreign authority is different from that of Eritrea.

Criterion 40.6 (Not Met). There is no specific provision provided that stipulates that competent authorities should safeguard the information and only use it for the purposes for which it was sought. This duty is only created for the FIU in Article 16 which it states that information provided shall be used only for the purposes of combating money laundering and financing of terrorism and only with the consent of the foreign counterpart agency.

Criterion 40.7 (Partly Met). All government officials take an oath of secrecy where they shall not communicate or disclose any information that the information, documents, or facts which are secret which have come to their knowledge in the course of their duties. Breach of this oath of secrecy has been criminalised in the TPCE. This is a general secrecy clause and there is no clause that explicitly creates a duty to protect information received from foreign counterparts.

Criterion 40.8 (Met). Competent authorities can conduct inquiries on behalf of foreign counterparts and the standard for exchanging information is the same as for conducting domestic inquiries.

Exchange of information between FIUs

Criterion 40.9 (Met). The FIU as provided for in Article 39 of the AML/CFT Proclamation is obliged to cooperate with foreign counterparts on matters related to money laundering, terrorist financing and related predicate offences. Furthermore, Article 16 of the AML/CFT Proclamation, Article 3(2)(e) and Article 13 of Directive NO.1/2018 give the FIU powers to engage and share information with foreign counterparts for the purposes of international cooperation.

Criterion 40.10 (Not Met). There is no provision or requirement in law that compels the FIU to give feedback to its counterparts on the use of the information provided by the foreign counterpart.

Criterion 40.11 (Met).

a-b The FIU, as provided for in Article 4(3)(a) of Directive NO.1/2018, has powers to access information that is held by financial institutions, supervisory authorities, DFNBP and law enforcement agencies for the purposes of executing its functions. The FIU can, as provided for in Article 2(e) and Article 2(f), share that information with foreign counterparts in accordance with an existing agreement for the purposes of executing its functions.

Exchange of information between financial supervisors

Criterion 40.12 (Mostly Met). The financial institutions supervisor can share information with their counterparts. The legal basis for this is provided for in Article 28 of the AML/CFT Proclamation read in conjunction with Article 39 of the AML/CFT Proclamation. There is no supervisor for DNFBNPs.

Criterion 40.13 (Partly Met). Supervisors can share information with their foreign counterparts as

provided for in Article 28(7) of the AML/CFT Proclamation in a timely and effective manner. There is, however, no provision that covers sharing with their counterparts information that is held by financial institutions.

Criterion 40.14 (a), (b) and (c) (Partly Met). The over-arching duty of Article 39 of the AML/CFT Proclamation of cooperating with foreign counterparts which includes the exchange of information enables supervisors to share information with the foreign counterparts. However, there is no specification on the kind of information that the supervisors can share with their counterparts.

Criterion 40.15 (Not Met). There is no explicit provision that enables supervisors to conduct inquiries on behalf of foreign counterparts.

Criterion 40.16 (Not Met). There is no requirement for financial supervisors to ensure that they have the prior authorisation of the requested financial supervisor for any dissemination of information exchanged, or use of that information for supervisory and non-supervisory purposes.

Exchange of information between law enforcement authorities

Criterion 40.17 (Partly Met). Law enforcement agencies can share information related to money laundering, terrorist financing and other predicate offences, with their foreign counterparts as provided for in Article 39 of the AML/CFT Proclamation. However, this does not cover the identification and tracing of proceeds of crime and instrumentalities of a crime.

Criterion 40.18 (Mostly Met). Eritrea is a member of INTERPOL and has a National Central Bureau of Interpol and is a member of the East Africa Police Chiefs Cooperation Organization. In line with the aforementioned it is obliged to conduct inquiries and obtain information on behalf of foreign counterparts. There is no mention of the mechanisms that are available to law enforcement agencies in carrying out this function.

Criterion 40.19 (Met). Law enforcement agencies can undertake joint investigations with foreign counterparts as provided for in Article 39 of the AML/CFT Proclamation. Furthermore, law enforcement agencies can enter into bilateral and multilateral arrangements as is evident in Eritrea being a member of INTERPOL and East Africa Police Chiefs Cooperation Organisation.

Exchange of information between non-counterparts

Criterion 40.20 (Not Met). There is no provision made for exchange of information between non-counterparts.

Weighting and Conclusion

Competent authorities can provide international cooperation through agreements and MOUs. However, on matters related to ML and TF it could not be demonstrated that all authorities can cooperate or that all

information can be provided rapidly to their counterparts. Additionally, competent authorities are not required by law to give feedback to their foreign counterparts on the usefulness of the information received and it could not be demonstrated if all competent authorities undertake inquiries on behalf of their counterparts.

Eritrea is rated is Partially Compliant with Recommendation 40.

Annex Table 2. Compliance with FATF Recommendations

Summary of Technical Compliance – Key Deficiencies

Recommendations	Rating	Factor(s) underlying the rating
1. Assessing risks & applying a risk-based approach	NC	<ul style="list-style-type: none"> Absence of requirements for FIs and DNFBPs to conduct ML/TF risk assessment, to develop and implement measures to mitigate and manage the identified risks. ML/TF risk has not been identified and assessed at the county and sectoral level. Additionally, the FIs and DNFBPs have not conducted institution level ML/TF risk assessment. The allocation of resources and implementation of AML/CFT measures is not risk based approach. There is no obligation on FIs and DNFBPs to; have their internal policies, procedures, and controls approved by Senior Management and enhance their AML/CFT controls if the results of monitoring of controls deem it necessary. There is no provision in the law for the DNFBPs to comply with the risk assessment and mitigation measures regarding ML/TF preventive measures stipulated in R.1.
2. National cooperation and coordination	NC	<ul style="list-style-type: none"> Eritrea does not have AML/CFT policies informed by risk identified. Competent authorities do have mechanisms in place to cooperate and coordinate, and exchange information concerning the development of AML/CFT/CPF policies and activities both at policy and operational level. There is no cooperation and coordination between relevant authorities to ensure compatibility of AML/CFT requirements with data protection and privacy rules.
3. Money laundering offences	NC	<ul style="list-style-type: none"> The definition of ‘proceeds of crime’ under Article 2(1)(26) of the AML/CFT Proclamation does not fully align with international standards i.e. the Vienna and Palermo Conventions as it only covers proceeds derived or obtained directly or indirectly from a ML or TF offence thereby excluding proceeds from underlying predicate offences of ML. Eritrea applies a threshold approach to predicate offences which is linked to the penalty of rigorous imprisonment. Some of the designated offences under the Penal Code fall short of the rigorous imprisonment threshold. For example, trafficking in human beings and migrant smuggling; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; and tax crimes are punishable by simple imprisonment not exceeding one year. The proceeds of crime are restricted to ML and TF offences and exclude proceeds of crime derived from underlying predicate offences for ML. There is no legal coverage to prove that a property is proceeds of crime without attaching it to a predicate offence conviction. There is no legal coverage for the intent and knowledge required to prove the ML offence to be inferred from objective factual circumstances. ML offence is punishable with rigorous imprisonment from five years to ten years and a fine not exceeding Fifty Thousand Nakfa (3,350 USD) (Article 31 of the AML/CFT Proclamation). These criminal sanctions are not proportionate and dissuasive when compared to other serious offences punishable by rigorous imprisonment in Eritrea (which is normally for a period of one to twenty-five years, but where it is expressly laid down by law it may be for life).

4. Confiscation and provisional measures	PC	<ul style="list-style-type: none"> • Proceeds of crime are defined as specifically those derived from a money laundering and a terrorist financing offence. The scope of predicate offences is therefore limited as the definition excludes predicate offences as outlined in the FATF glossary • Property of corresponding value is not covered
5. Terrorist financing offence	PC	<ul style="list-style-type: none"> • Terrorist acts are limited to the acts in Article 2(1)(b) of the TF Convention and do not cover the different types of terrorist acts in Article 2(1)(a) of the Convention. • Eritrea has not criminalised financing the travel of individuals who travel to a State other than their States of residence or nationality for the purpose of the perpetration, planning, or preparation of, or participation in, terrorist acts or the providing or receiving of terrorist training. • There is no definition of funds. Eritrean law is not explicit in relation to the funds or assets, their scope, value and other benefits in kind which may be transferred through a transaction, including a legitimate source. • There is no legal coverage for the intent and knowledge required to prove the TF offence to be inferred from objective factual circumstances. • Relative to other serious offences in Eritrea which carry a maximum penalty of 25 years of imprisonment or imprisonment for life, the rigorous imprisonment from five to ten years and a fine not exceeding fifty thousand Nakfa (3,350 USD) applicable to natural persons convicted of TF is not proportionate and dissuasive. • Eritrea law does not expressly designate TF offences as ML predicate offences. • Eritrean law does not expressly cover the financing of a terrorist act regardless of whether the terrorist act is committed within the country or abroad, or whether the person alleged to have committed TF is in the same country or a different country from the one in which the terrorist or terrorist organisation is located. The TF offence in Eritrea does not therefore have this extraterritorial effect.
6. Targeted financial sanctions related to terrorism & TF	NC	<ul style="list-style-type: none"> • Eritrea does not have measures in place to implement the requirements under this Recommendation 6.
7. Targeted financial sanctions related to proliferation	NC	<ul style="list-style-type: none"> • Eritrea has no legal framework that provides for effective procedures or mechanisms to propose persons and entities to the UN Security Council for designation in accordance with relevant UNSCRs for implementation of targeted financial sanctions related to proliferation.
8. Non-profit organisations	NC	<ul style="list-style-type: none"> • Eritrea has not conducted a TF risk assessment which serves as a first step in identifying, analysing and understanding TF risks. Eritrea does not have measures in place to address the requirements of Recommendation 8.
9. Financial institution secrecy laws	PC	<ul style="list-style-type: none"> • No requirement which compels the ordering FI to share information with beneficiary FI within three (03) business days regarding domestic wire transfers • No requirement on FIs enables Law enforcement authorities to compel immediate production of customer information from the ordering FIs. • No requirement for sharing of information domestically available to financial supervisors in Eritrea (including information held by FIs), in a manner proportionate to their respective needs with their foreign counterparts.
10. Customer due diligence	PC	<ul style="list-style-type: none"> • FIs are not required to conduct customer due diligence when carrying out occasional transactions that are wire transfers in the circumstances covered by R.16 and its Interpretive Note. • FIs are not required to understand the purpose and intended nature of the

		<p>business relationships.</p> <ul style="list-style-type: none"> • There are no CDD requirements regarding the beneficiary of life insurance and other investment related insurance policies. • There is no requirement which prohibits FIs from pursuing CDD process, when the FI reasonably believes that performing the CDD process will tip-off the client. • There is no requirement which prohibit FIs that are unable to comply with relevant CDD measures, not to open the account, commence business relations or perform the transaction; or terminate the business relationship; and to consider making a suspicious transaction report (STR) in relation to the customer. • FIs are not required to apply simplified CDD measures where lower risks have been identified, through an adequate analysis of FIs to apply CDD requirements to existing customers on the basis of materiality and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained. • No requirement for FIs to verify the identity of the beneficial owners before or during the course of establishing a business relationship. • FIs are not required to identify and take reasonable measures to verify the identity of beneficial owners for customers that are legal persons; through obtaining the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means in case there is doubt.
11. Record keeping	LC	<ul style="list-style-type: none"> • No obligation for FIs to keep records obtained through CDD measures including records on purpose and intended nature of the business relationship, information obtained when conducting ongoing due diligence on the business relationship and the results of any analysis undertaken. • No obligation for FIs to ensure that all CDD information and transactions records are available swiftly to the domestic competent authorities upon proper authority.
12. Politically exposed persons	PC	<ul style="list-style-type: none"> • Specific measures relating to PEPs do not lay down condition of territoriality regarding domestic PEP and foreign PEP, • Persons who are or have been entrusted with a prominent function by an international organization have not been classified as PEPs. • FIs are not required to apply measures in Criterion 12.1 and 12.2 on family or close associates of international PEPs. • In relation to life insurance policies, there is no specific provision requiring FIs to take reasonable measures to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs.
13. Correspondent banking	PC	<ul style="list-style-type: none"> • Absence of specific obligation for FIs to obtain approval from Senior management before establishing new correspondent relationships. • No provision for FIs to clearly understand their respective AML/CFT responsibilities. • The scope of the obligation on respondent FIs to provide relevant customer identification data upon request to the correspondent bank only covers only the customer identification data.
14. Money or value transfer services	PC	<ul style="list-style-type: none"> • No obligation for MVTS providers to be subjected to adequate monitoring for AML/CFT Compliance. • Absence of actions are undertaken with a view to identifying natural or legal persons that carry out MVTS without a licence or registration and applying proportionate and dissuasive sanctions to them • Lack of explicit legal requirements for agents to be licensed or registered and included in the AML/CFT programmes of MVTS providers.
15. New technologies	NC	<ul style="list-style-type: none"> • There are no obligations for FIs to undertake ML/TF risk assessment prior to the launch or use of such products, practices and technologies; and take appropriate measures to manage and mitigate the risks from new technologies.

		<ul style="list-style-type: none"> No obligations for Virtual Asset Service Providers (VASPs) to take action to identify, assess, and understand the ML/TF risks. There is no legal provision for licensing or registering VASPs and no specific action has been taken to identify natural or legal persons that carry out VASP activities without the requisite license or registration and apply appropriate sanctions to them.
16. Wire transfers	NC	<ul style="list-style-type: none"> Absence of obligation for FIs to ensure that all cross-border wire transfers of USD/EUR 1,000 or more are always accompanied by required and accurate originator information and required beneficiary information. FIs are not obliged to keep records of wire transactions above USD1000 and below USD10,000. Absence of obligation to have risk-based policies and procedures for determining when to execute, reject, or suspend a wire transfer lacking required beneficiary information; and taking appropriate follow-up action. Absence of obligation to ensure that the batch file contain required and accurate originator information, and full beneficiary information, that is fully traceable within the beneficiary country; and the FI to include the originator's account number or unique transaction reference number. Absence of obligation for the FI to make the information available within three (03) business days of receiving the request from relevant entities. Absence of provision for LEA to compel immediate production of such information. Absence of obligation of FIs not to execute wire transfer if it does not comply with the requirements specified in Criteria 16.1-16.7. Absence of obligation for FIs to take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or required beneficiary information. Absence of obligation to conduct post-event monitoring or real-time monitoring where feasible, to identify cross-border wire transfers that lack required originator information or required beneficiary information.
17. Reliance on third parties	NA	<ul style="list-style-type: none"> There is no legal provision regarding FI's reliance on third-party financial institutions and DNFBPs to perform elements (a)-(c) of the CDD measures set out in Recommendation 10 (identification of the customer; identification of the beneficial owner; and understanding the nature of the business) or to introduce business.
18. Internal controls and foreign branches and subsidiaries	LC	<ul style="list-style-type: none"> There is no obligation on FIs to implement programmes against ML/TF with regard to ML/TF risk such as the screening procedure to ensure high standards when hiring employees.
19. Higher-risk countries	NC	<ul style="list-style-type: none"> No requirement for FIs to apply enhanced due diligence, proportionate to the risks, to business relationships and transactions with natural and legal persons No requirement for FIs to apply countermeasures proportionate to the risks when called to do so by the FATF and independently of any call by the FATF. No mechanism for the FIs to be advised of concerns about weaknesses in the AML/CFT systems of other countries.
20. Reporting of suspicious transaction	NC	<ul style="list-style-type: none"> FIs are not specifically compelled to report to the FIU all suspicious transactions regardless of the amount. The definition of "property" does not include corporeal or incorporeal assets". Suspicious transaction reports are only in relation to ML/TF and does not include other criminal activities as defined in the Glossary.
21. Tipping-off and confidentiality	LC	<ul style="list-style-type: none"> The legal framework protects FIs, directors and individuals when submitting information on STRs to the FIU but, it is not clear that this protection is available even if the FIs, or directors, other officers or employees did not know precisely what the underlying criminal activity was when submitting the STR to the FIU and regardless of whether illegal activity actually occurred when the STR was submitted.

22. DNFBPs: Customer due diligence	NC	<ul style="list-style-type: none"> All operational DNFBPs are not covered by the AML/CFT Proclamation 2014 (as amended) which significantly limits application of the requirements stipulated in R. 10, R.11, R. 12, R. 15 and R. 17.
23. DNFBPs: Other measures	NC	<ul style="list-style-type: none"> Although minor, there is no requirement for DNFBPs to comply with R.18 and 19 on internal controls and high-risk countries. The AML/CFT Proclamation 2014 (as amended) does not require all the DNFBPs to comply with the tipping-off and confidentiality requirement.
24. Transparency and beneficial ownership of legal persons	NC	<ul style="list-style-type: none"> Eritrea collects basic information on business organisation. This information is accurate, up to date and available to competent authorities. However, the information collected is not exhaustive and does not include beneficial ownership information as required by R.24 Eritrea needs to develop a system for the collection of beneficial ownership and they should Competent authorities do not have direct access to beneficial information and therefore cannot access it in a timely manner as they have to apply for a court order.
25. Transparency and beneficial ownership of legal arrangements	N/A	<ul style="list-style-type: none"> Eritrea does not have a regulatory framework that provides for the establishment of legal arrangements
26. Regulation and supervision of financial institutions	PC	<ul style="list-style-type: none"> No licensing process for insurance companies in Eritrea. Similarly, the fit and proper rules for the Microfinance have not been developed. Lack of supervisory framework which indicate frequency and intensity of supervision activities based on: The ML/TF risks and the policies, internal controls and procedures associated with the institution or group, as identified by the supervisors' assessment of the institutions or groups' risk profile; The ML/TF risks present in the country; and the characteristics of financial institutions or groups, in particular the diversity and number of financial institutions and the degree of discretion allowed to them under the risk-based approach. AML/CFT supervisors for financial institutions had not commenced supervisory actions in Eritrea due to absence of capacity. As a result, the supervisors have not reviewed assessment of ML/TF risk profiles of financial institutions periodically and when there are major events or developments in their management and operations.
27. Powers of supervisors	LC	<ul style="list-style-type: none"> Supervisory authority for financial institutions has a wide range of powers including powers to conduct inspections and impose sanctions for failure to comply with the obligations of the Proclamation.
28. Regulation and supervision of DNFBPs	NC	<ul style="list-style-type: none"> Eritrea has not designated a supervisor for AML/CFT supervision of DNFBPs for compliance the AML/CFT requirements. DNFBPs are not subject to any form of AML/CFT supervision in Eritrea. Eritrea has not designated competent authority or SRB to perform its functions and ensure of the AML/CFT requirements. There is no legal requirement for competent authority or SRBs to take necessary measures to prevent criminals and their associates from being professionally accredited or holding a significant share of the DNFBP. Competent authority or SRBs have not been empowered to issue sanctions for non-compliance with the law. There is no supervision of DNFBPs in Eritrea to enable determination of whether supervisors perform their activities on a risk-sensitive basis.
29. Financial intelligence units	NC	<ul style="list-style-type: none"> The FIU is not operational to execute its core mandate. The FIU is not empowered to receive wire transfers reports and declaration of currency reports. The FIU is not empowered to carry out operational and strategic analysis.
30. Responsibilities of law enforcement and investigative authorities	PC	<ul style="list-style-type: none"> There is no provision authorising the law enforcement investigators of predicate offences to pursue the investigation of any related ML/TF offences during a parallel financial investigation, nor is there a legal basis that can able them to refer the case to another agency to follow up with such investigations, regardless of where the predicate offence occurred. The Anti-Corruption Unit is not designated to investigate ML/TF offences

		<p>arising from, or related to, corruption offences. Further, the Unit is not empowered to identify, trace, and initiate freezing and seizing of assets.</p>
31. Powers of law enforcement and investigative authorities	PC	<ul style="list-style-type: none"> The assessors could not determine whether LEAs used covert operations (such as surveillance, controlled delivery and undercover operations, if any) for ML, associated predicate offences and TF investigations. There is no legal coverage for competent authorities conducting ML, associate predicate offences and TF to ask for all relevant information held by the FIU.
32. Cash couriers	NC	<ul style="list-style-type: none"> Transportation of BNIs and other means of transportation of physical currency through mail and cargo are not covered in the declaration system. Customs Department or a competent authority do not have the authority to request and obtain further information from the carrier with regard to the origin of the currency and its intended use. There is no provision stipulating sanctions for persons who make a false declaration. Customs Department are not required to notify the FIU on suspicious cross-border transportation incidents nor to make all declaration information directly available to the FIU There is no retention of records for the purpose of international cooperation as envisioned in c.32.9(a)-(c).
33. Statistics	NC	<ul style="list-style-type: none"> Eritrea does not maintain comprehensive statistics in line with the requirements of Recommendation 33.
34. Guidance and feedback	PC	<ul style="list-style-type: none"> The supervisory authority for financial institutions has not provided feedback or carried out outreach programs/ trainings for financial institutions. Due to lack of AML/CFT supervisor for DNFBPs to ensure compliance of DNFBPs with the AML/CFT requirements, no guidelines have been issued or feedback provided to assist DNFBPs in applying national AML/CFT measures.
35. Sanctions	PC	<ul style="list-style-type: none"> Eritrea does not have sanctions for failure to comply with the requirements of recommendations 6 and 8. There are no sanctions applicable to the directors and senior management of the DNFBPs. Sanctions are not applicable to DNFBPs in Eritrea.
36. International instruments	PC	<ul style="list-style-type: none"> Eritrea is not party to all required international conventions. In addition, Eritrea has not domesticated those conventions that they are party to and consequently cannot fully implement them.
37. Mutual legal assistance	NC	<ul style="list-style-type: none"> Eritrea does not have a comprehensive legislative regime for processing MLA. There is therefore no legislation that designate a central authority for receiving and processing MLA requests. There is no legislation that creates an internal mechanism for receiving and processing incoming and outgoing requests and create a duty to render MLA and extradition in a timely manner.
38. Mutual legal assistance: freezing and confiscation	PC	<ul style="list-style-type: none"> Eritrean law provides for the development of an Agency, which is autonomous, that is responsible for identifying, seizing and confiscating property and further has powers relating to the administration and management of confiscated property. The Agency is not operational and currently freezing and confiscation is collaborative effort between various government institutions. Further shortfalls exist in the law as it refers only to property obtained through money laundering and proceeds, it does not cover instrumentalities of crime and instrumentalities intended to be used in a crime.

39. Extradition	PC	<ul style="list-style-type: none"> • Generally, the law provides for extradition in line with international law, treaties and national laws of Eritrea. There is however no explicitly mentioned mechanism of managing and processing extradition requests nor is there a mechanism of managing extradition requests. • The authorities had not demonstrated their capabilities in extraditing Eritrean nationals for ML/TF cases as there has not been any ML/TF cases.
40. Other forms of international cooperation	PC	<ul style="list-style-type: none"> • Competent authorities are legally permitted to provide international cooperation through agreements and MOUs, but the extent to which they use international cooperation could not be established as there were no supporting statistics. • The FIU is not operational therefore ML/TF cooperation does not exist. • Furthermore, the extent to which competent authorities can undertake inquiries on behalf of their counterparts could not be established.

Glossary of Acronyms

KEY TERMS	DEFINITION
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AT	Assessment Team
BLO	Business Licensing Office
BNI	Bearer Negotiable Instrument
BO	Beneficial Ownership
BE	Bank of Eritrea
CDD	Customer Due Diligence
CFT	Combating (Countering) the Financing of Terrorism
DNFBPs	Designated Non-Financial Businesses and Professions
DPMS	Dealers in Precious Metals and Stones
EDD	Enhanced Due Diligence
ERN	Eritrean Nakfa
FATF	Financial Action Task Force
FIs	Financial Institutions
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Programme
FXB	Foreign Exchange Bureau
GDP	Gross Domestic Product
IMF	International Monetary Fund
IO	Immediate Outcome
IRD	Inland Revenue Department
LEA	Law Enforcement Agency
MER	Mutual Evaluation Report
ML	Money Laundering
MLA	Mutual Legal Assistance
MOU	Memorandum of Understanding
MVTS	Money and Value Transfer Service
NBFI	Non-Bank Financial Institution
NICE	The National Insurance Corporation of Eritrea
NPO	Non-Profit Organisation
NPSFC	National Police and Security Force Command
NTF	National Task Force
OAG	Office of Attorney General
PEP	Politically Exposed Person
PF	Proliferation Financing
PLC	Private Limited Company
R	Recommendation

RBS	Risk Based Supervision
STR	Suspicious Transaction Report
TA	Technical Assistance
TCSPs	Trust and Company Service Provider
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TPCE	Transitional Penal Code of Eritrea
UN	United Nations
UNCAC	United Nations Commission on Anti-Corruption
UNSC	United Nations Security Council
UNSCRs	United Nations Security Council Resolutions
USD	United States Dollar
VA	Virtual Asset
VASP	Virtual Asset Service Provider