

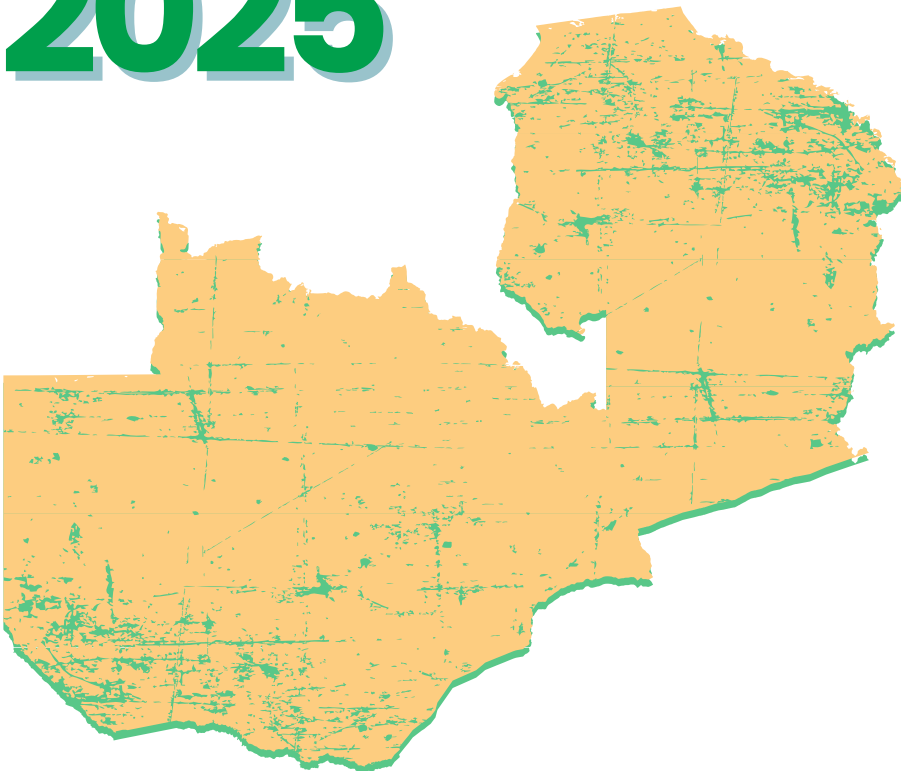


REPUBLIC OF ZAMBIA

# ZAMBIA MONEY LAUNDERING, TERRORISM FINANCING AND PROLIFERATION FINANCING NATIONAL RISK ASSESMENT

# REPORT

# 2025





**REPUBLIC OF ZAMBIA**

**ZAMBIA MONEY LAUNDERING,  
TERRORISM FINANCING AND  
PROLIFERATION FINANCING  
NATIONAL RISK ASSESSMENT  
REPORT 2025**

## **DISCLAIMER**

The National Money Laundering, Terrorism Financing and Proliferation Financing (ML/TF/PF) Risk Assessment of Zambia has been conducted as a self-assessment by the Zambian authorities using in part, the National ML/TF Risk Assessment Tool developed by the World Bank Group and the Royal United Services Institute (RUSI). Data, statistics and information used for completing the National ML/TF Risk Assessment Tool modules, as well as findings, interpretation and judgment under the scope of National ML/TF/PF Risk Assessment, completely belong to the Zambian authorities and do not reflect the views of the World Bank Group and RUSI.

## ACRONYMS

<b>ACC</b>	Anti-Corruption Commission
<b>AML</b>	Anti-Money Laundering
<b>AMLIU</b>	Anti-Money Laundering Investigations Unit
<b>BOZ</b>	Bank of Zambia
<b>CFTP</b>	Countering the Financing of Terrorism and Proliferation
<b>CTRs</b>	Currency Transaction Reports
<b>CBCDR</b>	Cross Border Currency Declaration Reports
<b>DNFBP</b>	Designated Non-Financial Businesses and Professions
<b>DPRK</b>	Democratic People's Republic of Korea
<b>ESAAMLG</b>	Eastern and Southern Africa Anti Money Laundering Group
<b>FATF</b>	Financial Action Task Force
<b>FIC</b>	Financial Intelligence Centre
<b>FIU</b>	Financial Intelligence Unit
<b>LAZ</b>	Law Association of Zambia
<b>LEAs</b>	Law Enforcement Agencies
<b>MER</b>	Mutual Evaluation Report
<b>MVTS</b>	Money or Value Transfer Services
<b>NRA</b>	National Risk Assessment
<b>PF</b>	Proliferation Financing
<b>RBA</b>	Risk Based Approach
<b>RUSI</b>	Royal United Services Institute
<b>SADC</b>	Southern African Development Community
<b>STRs</b>	Suspicious Transaction Reports
<b>TFS</b>	Targeted Financial Sanctions
<b>TF</b>	Terrorist Financing
<b>UNSCR</b>	United Nations Security Council Resolution
<b>VAs</b>	Virtual Assets
<b>VASPs</b>	Virtual Asset Service Providers
<b>ZICA</b>	Zambia Institute of Chartered Accountants
<b>ZRA</b>	Zambia Revenue Authority

## LIST OF TABLES AND FIGURES

<b>Table 1:</b>	Predicate Offence Ratings
<b>Table 2:</b>	Disseminations to ZRA
<b>Table 3:</b>	Statistics on Investigations, Prosecutions and Convictions related to Tax Evasion
<b>Table 4:</b>	Number of Corruption Cases Investigated, Prosecuted (2019 – 2024)
<b>Table 5:</b>	Sectoral ML Threat
<b>Table 6:</b>	Memoranda of Understanding with various Stakeholders
<b>Table 7:</b>	Asset Seized and Forfeited by AMLIU
<b>Table 8:</b>	Asset Seized and Forfeited by ACC
<b>Table 9:</b>	Asset Recovery Cases Filed into Court
<b>Table 10:</b>	Criminal Prosecutions and Forfeitures
<b>Table 11:</b>	Cases Handled by the EFCC From 2022 to 2024
<b>Table 12:</b>	Mutual Legal Assistance Requests Made and Received
<b>Table 13:</b>	Integrity Breaches by Audit Firms
<b>Table 14:</b>	Vulnerability Scores and Priority Ranking for Each Sector
<b>Table 15:</b>	Classification of the Banking Sector as at 31 December 2024
<b>Table 16:</b>	Market Snapshot
<b>Table 17:</b>	Market Capitalization
<b>Table 18:</b>	Trading Volumes and Activity
<b>Table 19:</b>	GRZ Secondary Market Bond Trading Activity
<b>Table 20:</b>	CIS Sector Fund Size Statistics
<b>Table 21:</b>	Classification of SEC-licensed Institution as at December 2024
<b>Table 22:</b>	Distribution of Insurance Entities as at 31 <sup>st</sup> December 2024
<b>Table 23:</b>	Growth of Total Assets in the Insurance Sector
<b>Table 24:</b>	Insurance sector Growth Trends - 2019 to 2023
<b>Table 25:</b>	General Input Variables – 2016 and 2024 NRA results
<b>Table 26:</b>	Effectiveness of Supervision/Oversight Activities Rating
<b>Table 27:</b>	Availability and Effectiveness of Entry Controls Rating
<b>Table 28:</b>	Integrity of Business/Profession Staff
<b>Table 29:</b>	AML Knowledge of Business/Profession staff
<b>Table 30:</b>	Effectiveness of Compliance Function Rating
<b>Table 31:</b>	Effectiveness of Suspicious Activity Monitoring and Reporting
<b>Table 32:</b>	ML Risk in the DNFBP Sectors
<b>Table 33:</b>	Legal Persons and Arrangements that can be Created in Zambia

- Table 34:** Total Number of Registered Legal Persons and Arrangement in Zambia between 2019 and 2024
- Table 35:** ANRI Rating
- Table 36:** Level of ML Threat (ENRC)
- Figure 1:** Priority Ranking for ML Combatting Ability Factors
- Figure 2:** Overall Assessment of the AML Control Variables
- Figure 3:** Vulnerability of the Banking Sector for the AML Control Variables
- Figure 4:** Number of Disciplinary Actions Taken
- Figure 5:** Number of STRs Submitted by the Banking Sector
- Figure 6:** Main Priority Areas in the Banking Sector for AML Control Variables
- Figure 7:** Product /Service Vulnerability
- Figure 8:** Product Service Vulnerability
- Figure 9:** Securities Sector Vulnerability
- Figure 10:** Ranking of Priority Areas (Securities)
- Figure 11:** Vulnerability of the Insurance Sector
- Figure 12:** Inherent and Final Vulnerability of Insurance products
- Figure 13:** Final Money Laundering Vulnerability of the Other FIs Sector
- Figure 14:** Priority Ranking of AML Control Variables (OFIs)
- Figure 15:** ML Vulnerability for the DNFBP Sectors
- Figure 16:** Priority Ranking for the DNFBP Sectors
- Figure 17:** Regional Terrorist Groups
- Figure 18:** Country Used as Transit Point
- Figure 19:** Direction of Funds
- Figure 20:** Employment Permits Issued between 2019 and 2023
- Figure 21:** Overall PF Risk

# CONTENTS

DISCLAIMER.....	i
ACRONYMS.....	ii
LIST OF TABLES AND FIGURES.....	iii
INTRODUCTION.....	1
<b>1.0 CHAPTER ONE: MONEY LAUNDERING NATIONAL THREAT ASSESSMENT .....</b>	<b>2</b>
1.1.    Objectives .....	2
1.2.    Predicate Offences Determined .....	2
1.3.    Detailed Analysis of Prevalent Predicate Offences .....	3
1.4.    Sectoral Threat Analysis.....	10
1.5.    Cross Border Money Laundering Threat Assessment.....	13
<b>2.0 CHAPTER TWO: MONEY LAUNDERING NATIONAL VULNERABILITY .....</b>	<b>17</b>
<b>ASSESSMENT .....</b>	<b>17</b>
2.1.    Objectives .....	17
2.2.    National Money Laundering Vulnerability Assessment .....	17
2.3.    National Combating Ability .....	17
2.4.    Sector Vulnerability.....	38
<b>3.0 CHAPTER THREE: BANKING SECTOR MONEY LAUNDERING RISK .....</b>	<b>40</b>
3.1    Objectives .....	40
3.2    Money Laundering Risk Level of the Banking Sector.....	40
3.3    Overview of the Banking Sector .....	40
3.4    Supervision and Regulation .....	41
3.5    Money Laundering Vulnerability Level of the Banking Sector.....	41
3.6    Anti-Money Laundering Control Variables Assessment .....	41
3.7    Quality of Anti Money Laundering General Controls .....	44
3.8    Assessment of Product Specific Variables.....	58
3.9    Assessment of Product/Service Vulnerability.....	64
<b>4.0 CHAPTER FOUR: SECURITIES SECTOR MONEY LAUNDERING RISK .....</b>	<b>65</b>
4.1    Objectives .....	65
4.2    Money Laundering Risk Level of the Securities Sector .....	65
4.3    Overview of the Securities Sector .....	65
4.4    Supervision and Regulation .....	68

4.5	Money Laundering Vulnerability Level of the Securities Sector .....	69
4.6	Inherent Vulnerability .....	78
4.7	Institutional Inherent Vulnerability .....	84
5.0	<b>CHAPTER FIVE: INSURANCE SECTOR MONEY LAUNDERING RISK .....</b>	<b>86</b>
5.1	Objectives .....	86
5.2	Money Laundering Risk Level of the Insurance Sector .....	86
5.3	Overview of the Insurance Sector .....	86
5.4	Supervision and Regulation .....	88
5.5	Money Laundering Vulnerability Level of the Insurance Sector .....	88
5.6	General Anti Money Laundering Control Variables Assessment .....	89
5.7	Product Specific Money Laundering Vulnerabilities .....	99
6.0	<b>CHAPTER SIX: OTHER FINANCIAL INSTITUTIONS SECTOR MONEY LAUNDERING RISK</b>	<b>106</b>
6.1	Objectives .....	106
6.2	Money Laundering Risk Level of the Other Financial Institutions Sector .....	106
6.3	General Input Variables .....	106
6.4	Inherent Money Laundering Vulnerability of Other Financial Institutions .....	113
6.5	Final Vulnerability Rating of the Other Financial Institutions Categories .....	116
7.0	<b>CHAPTER SEVEN: DESIGNATED NON-FINANCIAL BUSINESSES AND</b>	<b>118</b>
	<b>PROFESSIONS SECTOR MONEY LAUNDERING RISK .....</b>	<b>118</b>
7.1	Objectives .....	118
7.2	Overview of the Sector .....	118
7.3	Vulnerability Assessment for the DNFBP Sectors .....	118
7.4	Summary of the Vulnerability and Threat Ratings in the DNFBP Sectors .....	131
8.0	<b>CHAPTER EIGHT: MOTOR VEHICLE SECTOR MONEY LAUNDERING RISK</b>	<b>134</b>
	<b>ASSESSMENT .....</b>	<b>134</b>
8.1	Objectives .....	134
8.2	Overview of the Sector .....	134
8.3	Overall Money Laundering Risk in the Motor Vehicle Sectors .....	134
8.4	ML Threat Assessment .....	134
8.5	Money Laundering Vulnerability Assessment .....	135
9.0	<b>CHAPTER NINE: VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS RISK</b>	<b>136</b>
	<b>ASSESSMENT .....</b>	<b>136</b>

<b>10.0</b>	<b>CHAPTER TEN: LEGAL PERSONS AND LEGAL ARRANGEMENTS MONEY</b>	<b>137</b>
	<b>LAUNDERING/TERRORIST FINANCING RISK</b>	<b>137</b>
10.1	Objectives	137
10.2	Overview of the Sector	137
10.3	Mapping of Legal Persons and Arrangements in Zambia	137
10.4	Money Laundering Vulnerability of Legal Persons and Arrangements	139
10.5	Money Laundering Threat Assessment for Legal Persons and Arrangements	142
10.6	Overall Money Laundering Risk for Legal Persons and Arrangements	150
<b>11.0</b>	<b>CHAPTER ELEVEN: ENVIRONMENTAL AND NATURAL RESOURCES CRIMES</b>	<b>151</b>
	<b>MONEY LAUNDERING RISK</b>	<b>151</b>
11.1	Objectives	151
11.2	Overview of the Sector	151
11.3	International Conventions and Best Practices	152
11.4	Environmental Crimes Money Laundering Vulnerability	152
11.5	Environmental Crimes Money Laundering Threat	170
11.6	Summary of Threats and Risk Score	171
<b>12.0</b>	<b>CHAPTER TWELVE: TERRORISM FINANCING RISK ASSESSMENT</b>	<b>172</b>
12.1	Objectives	172
12.2	Terrorism Threat Analysis	172
12.3	Overall Assessment of Terrorist Financing Risk	176
12.4	Terrorist Financing Threat Analysis	176
12.5	Terrorist Financing Vulnerabilities	182
<b>13.0</b>	<b>CHAPTER THIRTEEN: PROLIFERATION FINANCING RISK ASSESSMENT</b>	<b>190</b>
13.1	Objectives	191
13.2	Overall Assessment of Proliferation Financing Risk	191
13.3	Sector Vulnerabilities to Proliferation Financing	195
13.4	Measures to Counter Proliferation Financing	198

## EXECUTIVE SUMMARY

The National Risk Assessment (NRA) is a comprehensive evaluation of the country's exposure to various threats and vulnerabilities related to money laundering (ML), terrorism financing (TF) and the financing of proliferation of weapons of mass destruction (PF). The first NRA was conducted in 2016. The National Policy for Anti-Money Laundering/Countering the Financing of Terrorism/Countering Proliferation Financing (AML/CFT/CPF) approved in 2022, following the first ML/TF NRA in 2016, recommended continuous and periodic update of the NRA report.

The current update of the national ML/TF/PF risk assessment takes into account the national ML/TF/PF threat, vulnerabilities and proposed mitigation measures to address identified risks. The implementation of the recommendations in the report will assist in the application of risk-based measures to address ML/TF/PF risks at national and institutional level by competent authorities and regulated entities.

Zambia's first NRA did not include an assessment of PF risk, Legal Persons and Arrangements, Environmental Crimes and Virtual Asset Service Providers (VASPs). This NRA has considered the risk posed by the aforementioned sectors.

The second NRA has updated the risks identified in the first NRA relating to banking, capital markets, insurance, Other Financial Institutions (OFIs) and Designated Non-Financial Businesses and Professions (DNFBPs) sectors. In updating this NRA, the World Bank and the Royal United Services Institute (RUSI) assessment tools were used. Twelve (12) interagency working groups comprising participants from public sector, private institutions, civil society organizations, academic and think tank institutions were established. The participants were chosen on the basis of their experience and expert knowledge in their respective fields.

The outcome of the assessment indicated that the national **ML** risk was **medium: (2016: medium high)**. This was as a result of overall ML threat being rated medium high and overall ML vulnerability rated medium low. The main drivers that contributed to the reduction of ML risk in Zambia included the reduction in the level of corruption and improved capacity of competent authorities to investigate, prosecute and confiscate tainted property.

The overall **TF risk** was assessed to be **low (2016: medium low)**. This was on account of enhancements to the counter terrorism financing legal framework as well as improved mechanisms to disrupt TF activities and operations. This was demonstrated through inter-agency cooperation where suspected TF operations were disrupted.

The **NPO sector TF risk** assessment was updated in 2024 and the overall TF risk was assessed to be **low, (2016: medium), (2020: medium)**. This was on account of the country having developed a legal framework to regulate NPOs for CFT purposes. Further, the Department of the Registrar of NGOs has developed measures that are focused on NPOs that may be abused for TF purposes. The assessment further revealed that there were no NPOs that were identified to be abused for TF.



NPO-TF-Risk-Assessment-Report.pdf

In relation to **PF**, the overall risk was assessed to be **medium low**. This was on the premise of the robust CPF legal framework. The assessment established that the country had developed mechanisms to implement Targeted Financial Sanctions (TFS) related to PF as required by international standards. However, the knowledge of the reporting entities, especially DNFBPs on PF matters was assessed to be low.

The assessment of the **Environmental and Natural Resources Crimes (ENRC)** comprised wildlife, fisheries, forestry, waste/ pollution and extraction/mining crimes. The assessment established that **ML** risk for ENCR in Zambia was rated **high**. This was premised on the transnational nature of the crimes, the high level of illicit profits and sanctions not being dissuasive or proportionate. Further, the assessment established that there were inadequate human and financial resources to address ENRCs effectively.

The **ML/TF** risk for the legal structures (**legal persons and arrangements**) was assessed as **high**, based on the weaknesses in the Companies Act and Lands (Perpetual Succession) Act, relating to beneficial ownership (BO) and sanctions which were found to be neither dissuasive nor proportionate. In addition, the assessment revealed that there were weak mechanisms for the verification of BO information of legal structures.

The **ML/TF** risk for the VASPs/VAs was assessed to be **medium high**. This was premised on, among other factors, lack of a robust legal framework for registration and licensing of VASPs. In addition, the assessment revealed that there were VASPs operating in Zambia that were unidentified and therefore not regulated.



NRA VASPS Final  
Draft Report.docx

In relation to the **Financial Inclusion** risk assessment, the ML/TF risk was assessed to be **medium low, (2016: low)**. The increase in the rating from **low** to **medium low** was attributed to products offered through tier 2, small scale farmers/enterprises, agents and corporates under mobile money products and banking services which are attractive to criminals as the thresholds were increased and provide cross border transactions.



Financial Inclusion  
Final Draft Report.doc

The assessment further considered risks presented by various sectors as per the table below:

### Sectoral ML Risk Ratings

No.	Sector	ML Risk 2025	ML Risk 2016
1.	Banking	Medium	Medium
2.	Insurance	Medium Low	Medium
3.	Securities	Medium	Medium
4.	Other Financial Institutions	Medium	Medium
5.	Real Estate	High	High
6.	Casinos	High	High
7.	Law Firms	High	High
8.	Accounting/audit firms	Medium	Medium High
9.	Dealers in Precious Stones and Metals	High	High
10.	Motor Vehicle Dealers	Medium High	High

As observed in the table above, the **ML** risk for casinos, real estate, law firms and dealers in precious stones and metals remained **high**. The main drivers were poor

implementation of AML/CFT/CPF requirements and the existence of unregistered dealers in the DPSM and real estate sectors.

Zambia will be undergoing the third round of Mutual Evaluation of its AML/CFT/CPF regime commencing in December 2027. The second round of Mutual Evaluation was concluded in 2019. The identification, assessment and understanding of ML/TF/PF risks is foundational to evaluating a country's AML/CFT/CPF systems. Therefore, this report will assist the country to adequately prepare for the Mutual Evaluation and to enhance the AML/CFT/CPF systems in Zambia.

## **INTRODUCTION**

Zambia is committed to ensuring that the country and its financial system are resilient in preventing ML/TF/PF and the financing or support of these activities. The country combats ML/TF/PF through a robust legal and institutional framework. In undertaking this assessment, experts from government and a wide range of private sector stakeholders, were co-opted to provide a contemporary, consolidated picture of ML/TF/PF risks and how the risks are mitigated. Completion of this assessment is an important step in strengthening Zambia's efforts in combatting ML/TF/PF and other financial crimes as well as ensuring Zambia meets its international obligations on AML/CFT/CPF. This assessment will also raise awareness among the private sector and encourage competent authorities to apply RBA in the investigation and prosecution of ML/TF/PF.

In undertaking this NRA, the World Bank tool was used to assess the ML and TF risks at both the national and sectoral levels, focusing on financial institutions and DNFBP sectors. The World Bank tool was further used to assess the ML and TF risks associated with environmental crimes as well as legal persons and arrangements. The risk assessment combined quantitative and qualitative analysis, stakeholder consultations and case studies.

Further, the PF Risk assessment was undertaken using the RUSI methodology. In the Zambian context, PF risk covers the risks of breach, non-implementation and evasion of all United Nations Security Council (UNSC) sanctions imposed on the DPRK and Iran, including activity-based sanctions. This scope is broader than the scope of the FATF Standards which only covers UNSC sanctions (e.g. asset freezing measures) imposed on UNSC-designated individuals and entities. Zambia adopted this wider approach as it would provide a fuller understanding of PF risks.

In undertaking this NRA, the Government of the Republic of Zambia provided financial support. The Common Market for Eastern and Southern Africa (COMESA) and Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH provided additional financial resources to complete the national undertaking.

## 1.0 CHAPTER ONE: MONEY LAUNDERING NATIONAL THREAT ASSESSMENT

The National ML Threat Assessment provides an assessment of the systemic ML threats. The assessment is key in raising the level of understanding of these threats and their negative impact, and help the Government to take decisive action to minimise the harm they can cause.

The National ML threat of Zambia was assessed to be **medium high**. The rating was premised on a **medium high** sectoral ML threat, **medium high** cross border threat and **medium high** predicate offence threat ratings.

The ML national threat assessment focused on assessing the predicate offenses that generate proceeds of crime, cross border threats, the value of the proceeds of crime, and the sectors in which the proceeds of crime are invested and laundered. The threat assessment enabled the Authorities to understand the setting in which predicate offences are perpetrated, the volume and pattern of predicate offences that are reported and prosecuted. The Authorities also took into account the value of proceeds that were seized and forfeited.

### 1.1. Objectives

The objectives of the ML national threat assessment were to:

- (i) Identify ML threats and understand those threats in terms of type of predicate offence, origin and sector;
- (ii) Systematically collect data to assess ML threat; and
- (iii) Analyse cross border threats from foreign jurisdictions.

### 1.2. Predicate Offences Determined

Zambia has adopted an all-crimes approach in criminalizing ML. Consequently, in assessing this variable the assessment took into consideration all profit generating predicate offences. All predicate offences to ML were analysed and five (5) crimes emerged as the major predicate crimes generating the most proceeds that feed into the national ML threat level. These are **tax evasion, smuggling of goods and cash, corruption, and fraud**. Table 1 below shows the most prevalent predicate offences in Zambia:

**Table 1: Predicate Offence Ratings**

No.	Most Prevalent Predicate Offences	Rating
1.	Tax evasion	High
2	Smuggling	High
3.	Corruption	Medium High
4.	Fraud	Medium High

During the assessment period, drug trafficking, theft and human trafficking were not among the most prevalent proceeds generating crimes in comparison to the 2016 NRA.

In relation to drug trafficking, based on the drug seizures between 2019 and 2023, the volume of illicit drugs was estimated to be over 385.5 tonnes with a value of over ZMW 9.6 billion. However, the assessment revealed that in most drug trafficking related cases, parallel financial investigations were not pursued.

### 1.3. Detailed Analysis of Prevalent Predicate Offences

Below is a detailed analysis of the ML threat emanating from the most prevalent predicate offences:

#### (i) Tax evasion

The Zambia Revenue Authority (ZRA) is the sole designated Authority to administer tax laws in the country. Tax evasion is a criminal offence under the Income Tax Act, Chapter 323, Value Added Tax Act Chapter 331, Customs and Excise Act Chapter 332 and Property Transfer Tax Act Chapter 340 of the Laws of Zambia.

The FIC in the period under review disseminated intelligence reports on suspected tax evasion. Table 2 below shows the number of disseminations to the ZRA:

**Table 2: Disseminations to ZRA**

Year	No. of Disseminations	Value of Disseminations by FIC (ZMW '000)	No. of Assessed Reports by ZRA	Assessments by ZRA (ZMW '000)
2020	24	717,000	8	63,000
2021	17	722,000	12	47,000
2022	52	1,330,000	3	700

2023	450	61,000	40	1,200,000
2024	573	90,000	326	28,900,000
<b>Total</b>	<b>1116</b>	<b>2,920,000</b>	<b>389</b>	<b>30,210,000</b>

The FIC noted that suspected tax evasion in Zambia remains a significant crime. This could be attributed to tax-related malpractices such as falsification of financial records, undervaluation of imports, and non-reporting of income. These activities were predominantly carried out by corporate bodies including shell companies, signaling persistent challenges in enforcing tax compliance and addressing fraudulent financial activities.

Further, information obtained from ZRA showed that tax evasion was indeed a concern for the country as tabulated below:

**Table 3: Statistics on Investigations, Prosecutions and Convictions related to Tax Evasion**

Period	Cases Investigated	Value (ZMW'000)	Prosecuted	Value (ZMW'000)	Convicted	Value (ZMW' 000)
<b>2019</b>	80	44,698	13	1,478	13	1,478
<b>2020</b>	107	3,738,858	22	82,909	6	Non-value convictions
<b>2021</b>	183	3,018	20	636	8	636
<b>2022</b>	123	21,039	33	83,745	16	3,109
<b>2023</b>	205	1,147,660	24	58,481	14	10,544

The ZRA implements both conviction and administrative measures in handling tax crimes. The assessment revealed that in the period under review, there were few convictions related to tax evasion. Further, the assessment established that in most cases, ZRA pursued the predicate offence rather than the ML offence emanating from tax crimes, as cases that have elements of ML are referred to AMLIU which is a unit under the DEC responsible for ML investigation.

The sectors where tax evasion was most prevalent included mining, retail, and wholesale sectors. The use of shell companies is a common technique used to evade tax in Zambia. These shell companies were found to be externalizing significant amounts of funds from Zambia without corresponding tax payment to the government.

In light of the foregoing, the ML threat from tax evasion was rated **high**. This rating is consistent with the findings of the 2016 NRA which rated ML from tax evasion as high.

## **(ii) Smuggling**

Zambia has in the recent past experienced increase in the smuggling of goods/contrabands such as alcohol, tobacco products, rosewood, cash, precious stones and metals (gold). Investigations and Intelligence show that operations are being undertaken through coordinating large numbers of individuals who carry illicit goods across borders and put them in storage and/or transport them to markets in other jurisdictions that can only be organised at criminal syndicate level. Smuggling is dominated by local and foreign individuals and business people who operate well-orchestrated syndicates. Smuggled goods have been found concealed in container trucks, airplanes, buses or through the use of porous borders.

Non-renewable resource crimes, particularly involving copper, lithium and cobalt, have grown in prominence in Zambia. The Copperbelt and North Western Provinces are a focal point for smuggling of minerals. The discovery of minerals such as gold and lithium, has exacerbated illegal extraction and smuggling. Foreign criminal networks facilitated by Zambians, coordinate these activities, often bribing border officials to facilitate smuggling.

Further, environmental crimes, particularly the illegal logging of protected African rosewood, are a significant issue in Zambia. The illicit trade is primarily driven by demand from Asia and traffickers take advantage of weak enforcement and regulatory loopholes to smuggle rosewood/mukula across borders. Foreign criminal networks and Prominent Influential Persons (PIPs) have been found facilitating these activities, frequently mislabeling timber shipments to evade detection. PIPs have also been implicated in this trade, leveraging their positions to enable illegal logging and use of the financial systems to launder proceeds.

**Case 1: Smuggling of USD2 million cash and Gold**

*In April 2025, a 27-year-old Indian national was on his way to Dubai in the United Arab Emirates when his attempt to smuggle more than USD2 million in cash and gold worth USD500,000 was thwarted by a multi-agency team at the Kenneth Kaunda International Airport. The money was packed into a black bag, which was then placed inside a larger polypropylene suitcase. A non-conviction-based forfeiture of US\$2 million, seven gold bars, and a Toyota Rush vehicle suspected to be proceeds of crime and instrumentalities had been applied in this case by the office of the Director of Public Prosecution (DPP).*

**Case 2: Zambia Revenue Authority seizes 66,000 liters of Smuggled Ethanol**

*In August 2025, the Zambia Revenue Authority (ZRA) seized two trucks carrying 66,000 liters of smuggled ethanol with a revenue loss of ZMW 3 million (USD150,000). The two trucks which entered Zambia through the Nakonde One Stop Border Post were both declared as carrying 132 packages of Calcium Hypochlorite each. However, upon inspection, ZRA officers discovered that the trucks were carrying Ethanol 96.0% in 250-liter plastic drums, contrary to the declaration. The Ethanol was packaged in drums labelled “Extra Neutral Alcohol 96%” with stickers bearing the code UN1170, confirming the commodity was indeed Ethanol.*

**Case 3: Mukula Log Case**

*In October 2021, LEAs with other security wings intercepted and seized a consignment of 23 trucks laden with Mukula logs belonging to Ackson Tembo, a Lusaka Businessman and proprietor of ACK General Suppliers. The trucks were enroute to neighboring Namibia and Zimbabwe, with unknown final destinations. Those arrested and charged in connection with this matter include Prominent Influential Persons (PIPs).*

In view of the foregoing, the money laundering threat from **smuggling** was rated **high**.

**(iii) Corruption**

The ACC is the body mandated to investigate and prosecute corruption offences. The mandate of the ACC is drawn from the Anti-Corruption Act No. 3 of 2012, which designates the ACC as the oversight institution in matters related to corruption. Corruption both in the public and private sectors continues to be the primary driver of ML both in the scope of activity and volume of illicit proceeds. Corruption is a broad criminal activity that can be categorized as petty or grand corruption resulting in specific acts of bribery, embezzlement and theft, among others.

The prime profit generating activities that the ACC dealt with in the execution of its mandate in the period 2019 to 2024 included abuse of authority of office, corrupt practices (bribes and kickbacks), willful failure to comply with applicable procedure, corrupt acquisition of public property, obtaining pecuniary advantage, possession of property suspected to be proceeds of crime and theft by servant. Additionally, during the period under review, corruption was most prevalent in the public sector, specifically in the health, education, construction and procurement sectors.

Table 3 below shows the number of corruption cases investigated and prosecuted. Further, the table outlines forfeitures recorded by the ACC between the period 2019 and 2024 and the amounts involved:

**Table 4: Number of Corruption Cases Investigated, Prosecuted (2019 – 2024)**

Year	Cases detected	Seized/ frozen (ZMW'000)	Prosecution Cases Concluded in Court	Convictions	Conviction Based Forfeitures (ZMW'000)	Non-Conviction Based Forfeitures (ZMW'000)
2019	202	3,000	23	16	43,170	974
2020	145	5,390	20	12	72,491	-
2021	183	150,286	19	15	37,726	67,000
2022	518	215,232	17	14	20,000	46,835
2023	559	12,526	23	17	2,088	10,150
2024	575	126,148	31	16	130,347	151,136
Total	2,182	512,583	133	90	305,823	276,096

The ML threat posed by corruption in the country was rated **medium high**, a rating lower than the previous NRA rating of **very high**. In the period under review, the ACC saw an increase in the number of cases reported due to the renewed political will in fighting corruption, enhanced public confidence in the criminal justice system and renewed organizational impetus to fight corruption. The increase in the number of cases investigated reflects an increased effectiveness in implementing enhanced legal and administrative measures that support investigation of cases.

**Case 4: Faith Musonda**

*In 2024, Faith Musonda's property worth over ZMW 21 million and cash amounting to ZMW 65 million and USD 57,900 were forfeited to the state. In this case the ACC made an application for a Non-Conviction Based order before the court, pursuant to the Forfeiture of Proceeds of Crime Act. The court ruled that the interested parties had failed to adduce evidence that the properties which were the subject of the proceedings were legitimately acquired.*

**(iv) Fraud**

In Zambia, the legal framework does not designate fraud as a stand-alone offence. However, the law recognizes a wide range of fraudulent conduct through various legislation such as theft, obtaining property by false pretenses and fraudulent false accounting.

In the period under review, the rise in fraud continued to be one of the largest drivers of money laundering activity. For instance, between 2023 and 2024, two thousand seven hundred and sixty-eight (2,768) fraud cases linked to ML were investigated and prosecuted involving ZMW710 372 342. 97 and USD 239 298 783.89.

Technological advancement has brought about many benefits. However, criminals have taken advantage of these advancements utilising them to advance their nefarious activities. Cybercriminals are constantly evolving in line with the constantly evolving human behaviors and trends, including increased use of digital platforms.

The cyber threat recorded during the period under review ranged from mobile money reversal scams, hacking of banking systems, extortion and investment fraud schemes such as Ponzi and Pyramid Schemes.

During the period under review, the rise in cyber related fraud continued to be one of the largest drivers of ML activity in terms of the scope of activity. For instance, between 2023 and 2024, 1,124 online scams were reported by the Ministry of Home Affairs and Internal Security resulting in losses of ZMW38 million. Further, between 2020 and 2024, the DEC received 41 cyber related cases involving over ZMW497.6 million and seized ZMW173.4 million. In addition, 14 vehicles, 6 real estate properties and various household goods were seized by the DEC.

**Case 5: Zambia Health Education and Communication Trust Case**

*In September 2024, a former Finance Manager, Raymond Tapiseni of Zambia Health Education and Communication Trust (ZHECT) was convicted and sentenced to 6 years imprisonment with hard labor. The Manager was found guilty on staggering 68 counts including 63 counts of forgery, one count of uttering false documents and five counts of theft by servant, contrary to the Penal Code. The Manager embezzled over ZMW5 million in fraudulent activities as Pay As You Earn (PAYE) for ZHECT employees.*

**Case 6: Malanji Case (Former Minister of Foreign Affairs)**

*In 2024, the Economic and Financial crimes Court tried former Minister of Foreign Affairs, Mr. Joseph Malanji, on eight counts of possession of illicitly obtained properties, namely, two helicopters, three residential properties, a hotel and USD 215,000.*

*\*This case remains a symbolic example of how corruption and abuse of authority transect at the highest levels of the executive. The prosecution of the case resulted in decisive series of convictions and forfeiture of property believed to be proceeds of crime, breaking new ground in Zambia's anti-corruption drive.*

**Case 7: Francis Muchemwa conviction**

*In July 2024, the Economic and Financial Crimes court convicted Francis Muchemwa and sentenced him to 3 years imprisonment. The court found that Muchemwa and his companies, Friteltech Networks Limited and Altitude Properties owned properties beyond their known legitimate income. These included a house, apartments, two plots and two trucks. The court found the parties guilty of the offence of possessing property suspected to be proceeds of crime and obtaining pecuniary advantage by false pretenses. The companies were fined a total of ZMW 800,000, while Mr. Muchemwa was also ordered to pay restitution of ZMW 141,400 to ZESCO for the subsistence allowance fraudulently obtained.*

**Case 8: Chinese case**

*In 2024, the DEC in collaboration with other Competent Authorities investigated a sophisticated cybercrime case involving 20 Chinese nationals and one Cameroonian. The offences included computer related misrepresentation (creation of fake identities using a modified version of WhatsApp Web), identity related crimes and operating an unlicensed network. The perpetrators portrayed themselves as employees of multi-national companies like Google and Gemini, assigning marketing tasks to their victims and later luring them into investing via Telegram. Fake Proof of Payments generated using photoshop were used to further deceive victims. Further, the accused were operating an unlicensed mobile network through a Sim Box. The perpetrators were convicted and sentenced to 11 years imprisonment. The properties were forfeited to the state.*

Based on the foregoing, the ML threat posed by fraud related offences in the country was rated **medium high**.

#### 1.4. Sectoral Threat Analysis

The sectoral ML threat assessment focused on how proceeds of crime are being invested and laundered in various sectors.

The sectors assessed were as follows:

- (i) Banking;
- (ii) Insurance and pensions;
- (iii) Securities or Capital Markets;
- (iv) Other Financial Institutions; and
- (v) Designated Non-Financial Businesses and Professionals (DNFBPs):
  - (a) Real Estate Agents;
  - (b) Casinos;
  - (c) Law firms;
  - (d) Accounting/audit firms; and
  - (e) Dealers in Precious Stones and Metals

Table 5 below shows the level of ML threat for the sectors:

**Table 5: Sectoral ML Threat**

No.	Sector	Rating
1.	Banking	Medium
2.	Insurance	Medium Low
3.	Securities	Medium Low
4.	Other Financial Institutions	Medium High
5.	Real Estate	High
6.	Casinos	High
7.	Law Firms	High
8.	Accounting/audit firms	Medium
9.	DPSM	High

The Sectoral ML threat was accordingly rated to be **medium high**.

## **(i) Banking Sector**

The banking sector in Zambia is considered to be the largest sub-sector within the financial sector in terms of the asset values. Ninety-five percent of STRs are filed by the banking sector as reported in the Trends Reports issued by the FIC. The most services and products offered by banks are susceptible to misuse by money launderers. These products/services include private banking, trade finance, internet banking, agency banking, wire transfers (domestic and international) and correspondent banking. However, in the Zambian context, the most susceptible products/services are wire transfers which are used for IFFs and associated tax evasion. Further, internet banking and its inter-operability with money value transfer services has increasingly been used for fraud. Furthermore, current accounts in Zambia are used for placement of cash deposits, some of which are from illicit sources. In addition, trade finance is mostly used for trade-based ML exploiting letters of credit.

The assessment revealed that most of the products/services alluded to above are exploited by foreign nationals, PIPs and corporate entities. However, the banking sector has to a large extent developed and implemented AML/CFT/CPF controls to address the ML threat. In view of the foregoing, the ML threat for the banking sector was rated **medium**.

## **(ii) Insurance Sector**

The insurance sector's contribution to GDP stood at an average of 1.3% during the period under review. The majority of the services offered in the sector such as life assurance, health, property and transport insurance are less attractive to money launderers. The assessment revealed that insurance services/products offered in Zambia that are most attractive to money launderers include, performance bonds and guarantees. The insurance sector continues to develop and implement AML/CFT/CPF programs to address the ML threat. In view of the foregoing, the ML threat in the insurance sector was rated **medium low**.

## **(iii) Capital Markets Sector**

The market capitalization to GDP ratio growth for the period under review was recorded at 5.1%. The types of services/ products offered by the sector include bonds, equity, asset management, collective investment schemes and share

transfer. The high speed at which transactions are conducted may attract criminals to invest illegally acquired funds in the sector. The assessment revealed that in the Zambian context, there have been few cases of abuse in informal collective investment schemes recorded. The capital market players continue to develop and implement AML/CFT/CPF programs to address the ML threat. In the period under review there were few cases that were investigated and prosecuted. In light of the foregoing, the ML threat in the Capital Markets sector was rated **medium low**.

#### **(iv) Other Financial Institutions**

The ML threat assessment for Other Financial Institutions considered payment service providers, bureau de change, micro finance institutions, savings and credit, money lenders and housing finance.

The services and products offered by these sectors are attractive to money launderers. For instance, the bureau de change, money lenders and microfinance institutions are cash intensive. Ineffective onboarding mechanisms exist in the payment system which criminals may exploit to move or to launder funds. The existence of agents, use of non-face-to-face, client-based profile, and the frequency of international transfers can be exploited by money launderers. During the period under review, the majority of the cases handled were cyber enabled and occurred in the MVTs sector. In relation to money lenders, the sector has not developed effective controls to address ML threats. In view of the foregoing, the ML threat for the other financial institutions was rated **medium-high**.

#### **(v) DNFBPs**

The services offered and activities conducted by DNFBPs are attractive and can be abused by money launderers. The high usage of cash in casinos, real estate, dealers in precious metals and stones (DPSM) is attractive to criminals. The existence of illegal operators in these sectors such as illegal miners can fuel conflict, encourage IFFs and compromise the security of the nation. The clandestine nature of activities and operations in the casinos tend to make the sector attractive to both local and foreign organized criminal networks. The law firms, accounting firms/audit firms offer services related to buying and selling of property which are susceptible to ML. In the period under review, the FIC analysed

cases that involved laundering of funds through client accounts maintained by legal practitioners. Further, the trends reports issued by the FIC in the period 2020-2024 revealed that some law firms and accounting firms were facilitating the setting up of shell companies both in Zambia and outside the country for the purposes of ML.

In light of the foregoing, the ML threat for real estate, casinos, law firms and DPSM was rated **high** while that of accounting/audit firms was rated **medium**.

### **1.5. Cross Border Money Laundering Threat Assessment**

In today's increasingly interconnected world, the threats posed by cross-border ML are becoming more prominent. To effectively address these threats, a cross-border threat assessment was undertaken to help the competent authorities in Zambia to identify, understand and mitigate the risks of cross-border ML.

The objectives of undertaking a cross border threat assessment were to:

- (i) assess the domestic laundering of proceeds of crime committed outside of the jurisdiction;
- (ii) assess the laundering of domestically generated proceeds of crime within the jurisdiction;
- (iii) assess the laundering of domestically generated proceeds of crime in other jurisdictions; and
- (iv) assess the threats posed by neighbouring jurisdictions.

#### **(i) Offences Committed in Foreign Jurisdictions and Proceeds Laundered in Zambia**

During the period under review, the assessment revealed that there had been offences committed in foreign jurisdictions and proceeds laundered in Zambia. Countries involved included Australia, Kenya, Nigeria, Vietnam and Zimbabwe.

#### **Case 9: Vietnam: Appeal No. 73/23**

*In March 2015, the DEC seized two bank accounts belonging to Double Q Surfaces Mining and Trading Limited. The two accounts were credited with USD 471,744 between 2014 and 2015. One of the Directors Ms. Chau a Vietnamese national was also in control of Troung An Limited a company operating in Vietnam and from whom some of the suspect money was remitted. The source of other money credited into Double Q Surfaces Mining and Trading Limited was*

*Lead Design Group, Brilliant Amaizing Limited and Albert Limited. These companies were domiciled in Asia. The pattern was that once the money was credited into the Double Q bank account, it was immediately withdrawn by Ms Chau. Other information received from Interpol established that Ms. Chau was on the run as she was wanted by the police in Vietnam for appropriation of property through swindling. The judge ordered the forfeiture of the money held in the seized bank accounts as there was no evidence that the money was not proceeds of crime.*

**Case 10: ML involving individuals from West Africa**

*Several foreign nationals from west Africa were investigated and convicted of possessing properties reasonably suspected to be proceeds of crime.*

*Investigations revealed that the foreign nationals had registered shell companies and opened bank accounts with several banks in Zambia. The companies' Shareholders and Directors were all foreigners and one local Company Secretary each.*

*A scrutiny of activities/transactions on these companies' account statements revealed that all the credits and debits to the accounts were characterised by international transfers. It was further established that the transactions did not correspond with the declared income and the type of business declared did not match the volume and nature of transactions on the accounts.*

*The transactions were characterised by international transfers to offshore accounts immediately after every credit. Further, the transactions did not make any economic sense, as the companies despite being registered in Zambia, had no local transactions and operational businesses in Zambia yet their accounts were very active. It was observed that accounts were merely opened for purposes of routing and obscuring the transactions.*

**(ii) Offences Committed in Zambia and Proceeds Laundered Within Zambia**

During the period under review, the assessment revealed that there were proceeds emanating from crimes committed in Zambia and laundered within the country. There have been cases investigated and assets forfeited to the state where property was acquired from proceeds of crime. Further, the assessment revealed that most of the corruption cases concluded during the period under review generated proceeds that were laundered within Zambia.

**Case 11: The People vs Charles Loyana and Another**

*In 2023, the EFCC convicted and sentenced Charles Loyana and his wife to 3 years imprisonment for corrupt practices involving concealment and being in possession of 48 houses suspected to be proceeds of crime worth over ZMW 37 million. The properties were forfeited to the state.*

**Case 12: Dalitso Lungu: 2023/HPEF/26**

*In 2023, Dalitso Lungu was charged for being in possession of over 80 motor vehicles, 16 properties including a filling station, cash and other holdings amounting to ZMW 31 million. (At the time of the assessment the matter was awaiting judgement).*

The financial intelligence reports disseminated by the FIC to LEAs and the annual Trends Reports show that there are a number of offences that are committed within Zambia and proceeds laundered within the country. One of the features which would attract launderers to commit an offence and launder the proceeds of the offence in Zambia is because Zambia is predominantly a cash economy.

**(iii) Offences Committed in Zambia and the Proceeds Laundered in Foreign Jurisdictions**

The assessment considered offences committed in Zambia and the proceeds laundered in foreign jurisdictions. The assessment revealed that the proceeds laundered in foreign jurisdictions were higher than those laundered locally. In the period under review, the following jurisdictions were used by most criminals to launder proceeds arising from offences committed within Zambia: United Arab Emirates, Hong Kong, Isle of Man, South Africa, Switzerland, Mauritius, China and Jersey.

Case 13 below demonstrates where an offence was committed in Zambia and proceeds laundered in other jurisdictions.

**Case 13: Malanji Case (Former Minister of Foreign Affairs)**

*In 2024, the Economic and Financial crimes Court convicted former Minister of Foreign Affairs, Mr. Malanji, 4 years imprisonment with hard labour for possession of illicitly obtained properties. The assets forfeited to the state include two helicopters, three houses plus over USD 200,000 all deemed to be proceeds of crime.*

**(iv) Threats Posed by Neighboring Jurisdictions**

Zambia shares borders with eight neighboring countries, making overall border security a significant challenge. Zambia's porous borders pose a significant threat of ML. The porous borders make it difficult to control illegal entry and exit thereby making it difficult to combat a range of cross border crimes. Key threats include smuggling, corruption, tax evasion and trade-based money laundering facilitated through the use of fake custom documentation and falsified invoices.

Further, Zambia being a cash-based economy may attract foreign criminals to launder their proceeds in Zambia because cash leaves no audit trail.

**Case 14: Illicit Trade between East Africa and Zambia**

*In the period under review, the FIC analysed STRs involving suspected illegal trade between Zambians and **Country O** nationals based in East Africa. Analysis revealed that the trade often involved nationals of **Country O** bringing into Zambia undeclared currency. This undeclared currency was used to buy minerals which were smuggled back to **Country O** thus circumventing customs regulations and taxes.*

*When the undeclared funds were in Zambia, the foreigners opened bank accounts and mobile wallets to facilitate the storage and movement of value. Some of these undeclared funds were deposited in bank accounts and mobile wallets belonging to Zambians. These funds were then withdrawn and used to buy illegally mined minerals in mineral producing areas such as the Copperbelt and North-Western Provinces. For the period between 2022 and 2024, the subjects' bank accounts recorded a total credit turnover of **ZMW 1 billion and USD 5 million.***

Due to its geographical position and significant volumes of trade between neighboring countries, Zambia is used as a transit for human trafficking, drug trafficking and illegal wildlife trade.

The assessment analysed cross border currency declarations between Zambia and other jurisdictions to determine the potential cross-border threat presented by other jurisdictions. The assessment established that currency declarations at borders are not consistently done. In one example, a neighboring jurisdiction reported that travelers from Zambia declared cash at their border which would not have been declared on the Zambian side. The 2024 NRA Report for Zimbabwe (page 56) stated that Zambia was a destination for cash smuggled out of Zimbabwe. However, this was not visible from inbound cash declarations in Zambia. This could be attributed to non-declaration or weak currency detection controls. In the period under review there were interceptions of cash by LEAs at airports in Zambia which were not declared.

In light of the above, cross border ML threat assessment was rated **medium high**.

## **2.0 CHAPTER TWO: MONEY LAUNDERING NATIONAL VULNERABILITY ASSESSMENT**

The National Vulnerability module was utilized to assess the defense and reaction mechanisms available for combating money laundering at national level. In addition, national vulnerability was assessed on the basis of the vulnerabilities of various sectors that could potentially be abused for money laundering.

### **2.1. Objectives**

The main objectives of the National Vulnerability Module were:

- (i) To identify the overall vulnerability of the country to money laundering;
- (ii) To identify the weaknesses and gaps in the country's ability to combat money laundering; and
- (iii) To prioritize actions that would improve the country's ability to combat money laundering by strengthening AML controls at national level.

### **2.2. National Money Laundering Vulnerability Assessment**

The National Money Laundering Vulnerability of Zambia was assessed to be **medium low** based on the **medium high** national ML combatting ability by competent authorities.

### **2.3. National Combating Ability**

The national combatting ability was determined through the assessment of the following variables:

#### **(i) Quality of AML Policy and Strategy**

In 2022/2023, the country developed the National AML/CFT/CPF Policy and Strategy which provide a framework to effectively address the money laundering, terrorist financing, proliferation financing and associated predicate crimes. This demonstrates Government's commitment to fighting financial crimes in the country.

The objectives of the Policy include:

- (a) to improve effectiveness and efficiency in institutions to prevent and counter ML/TF/PF;
- (b) to augment international cooperation for effective implementation of international conventions and standards on AML/CFTP; and
- (c) to harness collaboration between the public and private sectors in AML/CFT/CPF matters.

The Policy was informed by a comprehensive ML/TF risk assessment that was conducted in 2016 in conjunction with the private sector, public sector and civil society organizations. It took into account the money laundering vulnerabilities in the financial sector, DNFBPs sector, as well as threats from both internal and external factors.

The Policy was developed by the Anti-Money Laundering Authority (AMLA). AMLA is the AML policy making body in the country established under Section 4 of the Prohibition and Prevention of Money Laundering Act No. 14 of 2001. The AMLA is chaired by the Attorney General. The implementation of the AML/CFT/CPF Policy and strategy is spearheaded by the AML/CFT/CPF National Task Force of Senior Officials (NTFSO) and the National Interagency Task Force on Asset Recovery. In light of the foregoing, the quality of the AML Policy and Strategy was rated **medium high** with a score of **0.7**.

## **(ii) Effectiveness of ML Crime Definition**

In 2001, Zambia enacted legislation that criminalizes money laundering. The money laundering crime was defined in Section 2 of the PPMLA No.14 of 2001. It did not however meet all the elements of the money laundering offences as provided for under Article 6(1)(a)(ii) of the Palermo Convention. Section 2 of the principal act was thus amended in 2010 to provide for the concealment or disguise of the true nature, source, location, disposition, movement or ownership of rights relating to property which is proceeds of crime.

The country follows an all-crimes approach to prosecuting money laundering; therefore, the crime of money laundering is applicable to all offences. As provided in Section 7 of the PPMLA, money laundering is a separate offense and

is considered, in practice, as an ancillary to any predicate offence. Further, the money laundering definition also extends to self-laundering.

There is a wide range of dissuasive penalties for money laundering offences and these are proportionate to other serious crimes. Given the foregoing, the variable was rated **very high** with a score of **0.8**.

### **(iii) Comprehensiveness of Asset Forfeiture Laws**

There is a comprehensive legal and institutional framework on asset recovery. The laws include:

- (a) The Anti-Corruption Act No.3 of 2012 section 58, 59 & 62 including section 60 and 61;
- (b) Forfeiture of Proceeds of Crime (FPOC) Act sections 9,10,17,18,27,28, 29, 31, 37, 40, 41,52 and 54;
- (c) Penal Code Cap 87 Section 29, 322 and 373;
- (d) Criminal Procedure Code (CPC) Cap 88 Section 23;
- (e) Prohibition and Prevention of Money Laundering (PPML) Act No. 14 of 2001 Section 15, 17, 18, 20 and 23;
- (f) Customs and Excise Act Cap 322; and
- (g) Narcotic Drugs and Psychotropic Substances Act No 35 of 2021, Section 83.

The above listed pieces of legislation enable competent authorities to carry out rapidly provisional measures, such as seizing or freezing proceeds of crime and to prevent the transfer or disposal of the proceeds. The seizing and freezing extend to instrumentalities of ML and its associated predicate offenses, profits derived from those offenses, and property of corresponding value held by the criminal defendant or third parties.

The National Prosecution Authority (NPA) Act with the Forfeiture of Proceeds of Crime Act (FPOCA) creates the asset forfeiture department which implements the FPOCA. The FPOCA is the principal legislation relating to asset forfeiture in Zambia. It provides authorities with a range of asset forfeiture tools, including criminal forfeiture, non-conviction-based (NCB) forfeiture, enforcement of foreign NCB orders, and administrative forfeiture, consistent with domestic law. The FPOCA also provides for seizure, freezing, restraining of both local and international assets. The forfeited assets are restituted taking into account the interest of bona fide

third parties and some are given to law enforcement and public institutions to empower them. The FPOCA further provides Regulations for the management of assets and the appointment of an asset manager to manage seized and forfeited assets. It also provides for the creation of the asset forfeiture fund and a committee to administer the fund.

It was however noted that in practice there is a weakness in asset management because there are no standardized processes in the way assets are managed. Different institutions manage assets according to their institutional policies. At the time of the NRA, there were efforts to address the identified weaknesses through development of measures to manage seized and forfeited assets. Based on the foregoing, the variable was rated **very high** with a score of **0.8**.

#### **(iv) Quality of FIU Intelligence Gathering and Processing**

The Financial Intelligence Centre (FIC) is the designated national Centre for receipt and analysis of suspicious transaction reports and for the dissemination of the results of that analysis spontaneously or on request, to law enforcement agencies and other competent authorities. The FIC has sufficient operational independence and autonomy, including the autonomous decision to analyze, request, and/or disseminate specific information. The FIC is adequately structured and is staffed by persons who are appropriately trained and skilled with regard to analysis of financial products, processes and financial crimes.

At law and in practice, the FIC staff are expected to maintain professional standards concerning integrity and confidentiality. Further, Section 11 of the FIC Act requires officers to take an oath or affirmation before the Director General upon appointment.

The FIC became a member of the Egmont Group of Financial Intelligence Units in September 2018. By October 2024, the FIC had signed 22 Memoranda of Understanding (MOUs) with other FIUs, to allow for more effective exchange of information.

Further, in the period under review, the FIU had signed 20 MOUs with domestic competent authorities and 2 with international bodies engaged in combatting financial crimes. Table 6 below shows the number of MOUs signed by the FIC by 2024:

**Table 6: Memoranda of Understanding with various Stakeholders**

Stakeholders	Local	International
Financial Intelligence Units (ESAAMLG)		14
Financial Intelligence Units (Other)		8
International Institutions/Bodies		2
Law Enforcement Agencies	5	
Supervisory Authorities	7	
Competent Authorities & Others	8	
<b>Total</b>	<b>20</b>	<b>24</b>

The FIC receives Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs) from reporting entities. Further, the FIC receives wire transfer reports from Bank of Zambia. During the period 2019 to 2024, the FIC received a total of 30,620 STRs from the banking sector, MVTs providers, microfinance institutions, casinos, the insurance sector and Virtual Asset Service Providers (VASPs). In the same period, the FIC received 1,327,832 CTRs from reporting entities and disseminated a total of 2,152 intelligence reports to competent authorities. The assessment established that the suspicious transaction and currency transaction reporting system was automated and the majority of reports from reporting entities were received electronically. However, the dissemination of the results of the analysis was done manually.

Feedback on intelligence reports disseminated to LEAs indicated that the quality of the reports was good and, to a large extent, the reports aided the investigation of money laundering, financial crimes and predicate offences. The reports also assisted in asset tracing and recovery.

Section 38 of the FIC Act provides for the declaration of cross border currency by persons leaving or entering Zambia with cash equal to or exceeding the prescribed amount (USD 5,000 at the time of assessment). The assessment established that the CBCDRs were accessed electronically by the FIC, from 12 borders and entry/exit points in Zambia.

While the FIC had electronic access to various administrative and commercial databases of other domestic agencies, connectivity to these systems was sometimes intermittent. Further, inadequate human resources impacted on the

timeliness of the analysis process. Given the foregoing, the variable was rated **high** with a score of **0.7**.

**(v) Capacity and Resources for Financial Crime Investigations**

This variable assessed whether the country had adequate capacity and resources to effectively investigate money laundering offences, associated predicate offenses and the proceeds of foreign predicate offences, including deliberately aiding or facilitating all such offences.

The assessment established that the country had a specialized unit called the Anti-Money Laundering Investigations Unit (AMLIU) responsible for investigating money laundering offences. Other LEAs that supported the investigation of ML included Zambia Revenue Authority (ZRA), Anti-Corruption Commission (ACC) and Zambia Police Service (ZPS). The assessment noted a significant improvement in the skills and experience of financial investigators. This enabled LEAs to effectively identify, trace, and initiate the freezing and seizing of assets derived from criminal activities. Tables 7 and 8 below provide statistics on assets seized and forfeited by the AMLIU and ACC between 2020 and 2024:

**Table 7: Asset Seized and Forfeited by AMLIU**

<b>Year</b>	<b>No. of Assets Seized by AMLIU</b>	<b>No. Assets Forfeited (AMLIU)</b>
<b>2020</b>	610	2
<b>2021</b>	71	4
<b>2022</b>	284	5
<b>2023</b>	278	3
<b>2024</b>	107	41

**Table 8: Asset Seized and Forfeited by ACC**

Year	Value of Assets Seized by ACC (ZMW'000)	Value of Assets Forfeited (ZMW)
2020	5,390	72,491
2021	150,286	104,726
2022	215,232,	66,835
2023	12,526	12,238
2024	126,148	281,484

During the period under review, various trainings were undertaken by staff from LEAs in courses including wildlife trafficking investigations, financial investigations, cryptocurrency investigations, cybercrime and computer forensic investigations asset recovery, and predicate offences. Further, a national curriculum for Financial Investigations and Asset Recovery was developed and launched in January 2024. However, it did not provide for the investigations of virtual assets. As such, competent authorities had limited knowledge on investigating virtual asset related crimes. The assessment noted that overall, joint trainings had led to improvements in capacity among all key agencies.

The establishment of the National Interagency Task Force on Financial Investigation and Asset Recovery (NITFFIAR) in the period under review enhanced cooperation among competent authorities on investigations relating to financial crimes. Further, there was an increase in cases proceeding to prosecutions as a result of prosecutor guided investigations.

While there had been improvement in the skills of investigators, the number of investigators compared to the number of cases investigated was found to be inadequate. The funding of LEAs could also be increased. With the foregoing, this variable was rated **high** with a score of **0.7**.

#### **(vi) Integrity and Independence of Financial Crime Investigators**

The variable assessed whether investigators of money laundering offences and associated predicate offences and asset forfeiture investigators were able to act freely, without undue influence, enjoy sufficient operational independence and autonomy, display high professional standards and act with integrity.

The assessment established that there were safeguards in place at law and in practice for the preservation of the integrity of financial crime investigators. At law, various pieces of legislation such as the Narcotic Drugs and Psychotropic Substance Act No. 35 and the Anti-Corruption Act No. 3 of 2012 are some of the laws which provided for a code of conduct and code of ethics which financial crime investigators were required to adhere to. In practice, integrity is one of the core values for financial crime investigators as such, officers face disciplinary sanctions as provided by law if found wanting. Integrity committees have been established in all LEAs to identify and mitigate integrity risks by implementing policies and procedures that promote ethical conduct among financial crime investigators.

The assessment established that there was no political interference, social pressure, corruption or intimidation in the investigation of ML. However, public and media perceptions indicated that there were occurrences of integrity breaches in the investigations of financial crime cases, especially those involving Prominent Influential Persons (PIPs). While this was taken as public and civil society perception and that the allegations could not be proven. With the foregoing the variable was rated **medium high** with a score of **0.6**.

#### **(vii) Capacity and Resources for Financial Crime Prosecutions**

The variable assessed whether the country had adequate capacity and resources to effectively prosecute ML offences, associated predicate offences, proceeds of foreign predicate offences and conduct asset forfeiture actions.

The assessment established that there was political will to combat financial crimes in Zambia. Prosecutors were annually funded by the government though the funding was inadequate. Further, the government established NPA as an autonomous body vested with prosecutorial function in Zambia as all prosecutions should be sanctioned by the Director of Public Prosecutions (DPP).

In this regard, the NPA had established structures which were specialised in prosecuting financial crimes, ML and Asset Forfeiture (AF). These were the Taxation and Financial Crimes and the Asset Forfeiture Departments. Though not adequately staffed, there had been a significant improvement in the number of staff in the Departments. The number of asset recovery cases filed to court by the NPA during the period under review are depicted in Table 9 below:

**Table 9: Asset Recovery Cases Filed into Court**

Year	Asset Recovery Cases Filed into Court
2020	6
2021	14
2022	27
2023	26
2024	18

In addition, table 10, shows the cases prosecuted in court during the period under review:

**Table 10: Criminal Prosecutions and Forfeitures**

Offence	Number of Cases Prosecuted
Money Laundering	13
Illicit trafficking in narcotic drugs and psychotropic substances	89
Corruption and bribery	1
Fraud	3
Forex trading (Ponzi/Pyramid Schemes)	1
Counterfeiting Currency	6
Tax Crimes	1
Forgery	15
Environmental Crime	31
<b>Total Prosecutions</b>	<b>170</b>
<b>Value of property forfeited</b>	<b>ZMW 17,209,699</b>

In relation to training, with the emergence of the Inter Agency Framework there had been a lot of goodwill from supporting partners to provide capacity building to members of the NITFFIAR. Most of the training related to financial investigations, money laundering and asset recovery. These trainings were conducted by various institutions such as the Asset Recovery Inter Agency Network for Southern Africa, Eastern and Southern Africa Anti-Money Laundering Group, United Nations Office on Drugs and Crime, Financial Intelligence Centre and many others. Over 80% of the prosecutors in the Taxation and Financial Crimes Department as well as the Asset Forfeiture Department took part in these trainings.

At the time of the assessment, there were a number of trained trainers by various cooperating partners. Of note were the trained trainers who had been trained by ESCAY project under the financial investigations and asset recovery curriculum project. Additionally, at the time of assessment a Trainer of Trainer Course was underway by the Basel institute aimed at building local capacity of trainers in financial investigations and asset recovery.

Officers had access to physical and online libraries for references. The inter-agency collaboration framework had made it much easier and efficient to access data and information from relevant repositories beyond public registries. With the foregoing, this variable was rated **high** with a score of **0.7**.

### **(viii) Integrity and Independence of Financial Crime Prosecutors**

The establishment of Integrity Committees has positively impacted the way prosecutors conduct themselves in the dispensation of their duties. Prosecutors also have sufficient operational independence and autonomy which enables them to display high professional standards and act with integrity.

For instance, in 2024, there were seven (7) reported integrity breaches involving NPA prosecutors. Four (4) out of the seven (7) cases resulted in disciplinary action including dismissal or suspension of the officers involved.

The NPA has adopted integrity reinforcing measures which include:

- (i) background checks during recruitment;
- (ii) membership to the Law Association of Zambia the regulator of professional ethics;
- (iii) codes of conduct;
- (iv) disciplinary processes;
- (v) anonymous whistleblowing mechanism;
- (vi) integrity testing programme; and
- (vii) open court hearings and free media coverage which act as a deterrence to rogue prosecutions.

Given the foregoing, the variable was rated **high** with a score of **0.7**.

**(ix) Capacity and Resources for Judicial Processes (incl. AF)**

In 2022, the Economic and Financial Crimes Court (EFCC) was established pursuant to SI No 5 of 2022 and rules to operationalize the court were promulgated through SI No. 11 of 2024. The EFCC's mandate is to adjudicate over asset forfeiture, money laundering and economic crime related cases. Prior to 2022, ML cases were commenced only in the subordinate court. The establishment of the EFCC was a positive development as it enabled cases to be expeditiously heard and disposed of in the high court as well. It also allowed for expertise as the judges who preside over matters in the EFCC have a bias toward financial crimes including money laundering. Table 11 below, depicts the number of cases handled by the EFCC in the period under review:

**Table 11: Cases Handled by the EFCC from 2022 to 2024**

Cases Brought Forward in 2022	Cases Filed Between 2022 & 2024	Cases Disposed of by 2024	Percentage of Disposal
0	119	54	45%

The assessment indicated that while the judicial system was well structured and staffed by persons who had the appropriate educational background, training and skills, it did not have adequate technological, financial and human resources. In addition, specialized training in regards to financial crimes, financial products and financial processes was required for the adjudicators. In terms of training, the assessment revealed that the judiciary had participated in at least one AML/CFTP training program per year. The assessment further indicated that adjudicators needed continuous capacity building to keep abreast with the dynamic changes in technology that enabled criminals to perpetrate financial crimes and conceal the proceeds. With the foregoing, the variable was rated **medium high** with a score of **0.6**.

**(x) Integrity and Independence of Judges (incl. AF)**

This variable assessed whether the judges presiding over prosecutions for ML offences (and associated predicate offences and proceeds of foreign predicate offences and asset forfeiture matters) were able to function without fear or favor.

The assessment established that there had been an increase in the convictions and recovery of proceeds of crime since the establishment of the EFCC. With the establishment of the specialized court, ML cases and related predicate offences had been presided over expeditiously. The pace of trials of alleged ML and financial crime offences was determined by High Court Rules SI No. 58 of 2020, Criminal Procedure Code (CPC) Cap 88 of the Laws of Zambia and the Economic and Financial Crimes Court Rules, 2024, which stipulate that the Court shall hear and determine matters within five (5) months of a plea being taken or an appeal being filed.

The assessment established that proceedings of alleged ML, related financial offences and AF cases were instituted and concluded in an objective and professional manner. The assessment further established that at least 80% of matters brought before the EFCC in the assessment period resulted in freezing or confiscation orders. It was established that there were safeguards in place to ensure the integrity of the adjudicators both at law and in practice. Given the findings of the assessment, the variable was rated **high** with a score of **0.7**.

#### **(xi) Quality of Border Controls**

The variable assessed whether the geographical circumstances and border control mechanisms of the country rendered the country secure against any attempts to smuggle bulk cash, precious stones and other items into or out of the country.

The assessment included visits to eleven (11) borders or entry/exit points in the country. Of the eleven (11) facilities visited, eight (8) indicated that passengers and members of the public were informed with regards to limitations on cash transportation, their relevant declaration duties and legal consequences of any violations. However, in the majority of the facilities, the declaration forms were not visible or readily accessible, while in a few instances, declaration forms were available electronically. The assessment established specified the need for additional signage in the passenger terminals to inform travelers of the declaration requirements. It was further noted that in some border areas, a significant number of travelers used informal channels and therefore, declaration requirements were only enforced for travelers who used border channels.

The Customs Services Division had procedures and methods for identifying and valuing goods which included customs to customs data exchange and officers trained in goods examination and valuation. It was noted that there were screening procedures for persons, vehicles and shipping containers. However, the screening processes were rated ineffective due to inadequate screening equipment and inadequate human capacity to do the screening. Further, apart from the Immigration Department, the majority of border agencies indicated that staffing levels overall were not adequate. There was also a need to enhance communication and transport resources in the majority of border areas. It was further noted that the officers mandated to do physical searches were very few and the searches tend to focus more on the detection of cash and less on Bearer Negotiable Instruments (BNIs).

The assessment revealed that there was good domestic cooperation and coordination among customs, immigration, police and other related authorities at the borders, through District Joint Operations Committees and other border committees.

However, some of the country's borders were known as routes for smuggling trade goods, people, cash and drugs. The detection of these items was done through various investigative tools. This notwithstanding, some of the investigative tools used at points of entry had limitation to detect cash.

The smuggling trends observed in the assessment period included:

- (a) People smuggling using undesignated routes, trucks and canoes;
- (b) Smuggling of drugs such as marijuana and controlled medicines;
- (c) Smuggling of maize and assorted goods;
- (d) Under declaration/ undervaluation of goods (such as alcoholic beverages, cooking oil, spare parts and cigarettes); and
- (e) Cash, precious stones and metals smuggled by water, road and air.

Given the fact that the borders were quite porous, it is relatively convenient to cross the borders illegally and in addition of the geographical/natural barriers in some places, the variable was rated **medium low** with a score of **0.4**.

## **(xii) Comprehensiveness of Customs Regime on Cash and Similar Instruments**

This variable assessed whether the country had a comprehensive and well-designed legal and regulatory framework that effectively informed all travelers entering and leaving the country about their AML/CFT related declaration or disclosure obligations and the consequences of any wrongdoing. Further, the legal framework provides for the authorities to effectively detect and deter any unauthorized physical cross-border transportation of cash, bearer negotiable instruments<sup>1</sup> and precious metals and stones.

The assessment established that the country had a comprehensive legal and regulatory framework which is governed by Cap.322 of the Customs and Excise Act. The Act provides for designated authorities to detect physical cross-border transportation of currency. It also provides for the restraining of falsely declared or disclosed currency and bearer negotiable instruments, based on suspicions of money laundering or related predicate offenses.

The assessment further established that appropriate sanctions were imposed for false declarations or disclosures and authorities had the powers to confiscate currency, bearer negotiable instruments, as well as precious metals and stones involved in ML activities. These sanctions were provided for in Section 41A (3) of the Customs and Excise Act, Section 71 of the FPOCA and Section 289 of the Penal Code. The comprehensiveness of the customs regime on cash and similar instruments was thus rated **very high** with a score of **0.8**.

## **(xiii) Effectiveness of Customs Controls on Cash and Similar Instruments**

The variable assessed whether the country enforced the customs laws and regulations effectively, and was able to actually detect and deter any attempt for unauthorized transportation of cash, negotiable instruments and precious metal and stones.

While it was observed that legislation on cash and similar instruments was comprehensively provided for, enforcement of these laws was assessed to be fairly weak. It was noted that the movement of cash was controlled to some extent, with varying levels of effectiveness. While leaflets, pop-ups, and on-screen

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<sup>1</sup> No longer applicable in Zambia by June 2026

alerts provide information on relevant cash transportation declaration or disclosure duties and any consequences of any violations, inadequate signage in some locations hindered effective communication. Enforcement of declaration requirements was done on travellers who used formal border channels, while the majority of the people used informal channels. Screening procedures and equipment varied across entry points, with some entry points having inadequate personnel and equipment. The majority did not have body, baggage or light vehicle scanners. Random checks and risk-based searches were conducted at airports, but illegal cash transportation remained challenging to detect and relied mainly on intelligence information. Electronic declaration forms were available in some borders providing a historical record of cash declarations and sanctions were applied for violations. Overall, border controls on cash and similar instruments were hindered by factors such as inadequate staffing, limited equipment, and porous borders. In view of the foregoing the variable was rated **low** with a score of **0.3**.

#### **(xiv) Effectiveness of Domestic Cooperation**

The variable assessed whether the country's AML/CFTP agencies cooperated effectively and coordinated domestically with each other to combat money laundering and other financial crimes.

The assessment established that domestic cooperation was enhanced by the establishment of the Inter-Agency Taskforce for Financial Investigations and Asset Recovery which has enabled prosecution, law enforcement and regulatory authorities, among other agencies, to work together towards financial investigations, asset recovery and combatting financial crimes, including ML. At the time of the assessment, 21 institutions were members of the Task Force. The task force met every quarter at steering committee level, and monthly at technical committee level. The assessment further established those competent authorities met regularly to exchange intelligence and information.

The National Interagency Task Force on Financial Investigation and Asset Recovery provided for joint investigations and over time committees had conducted investigations which had resulted in the prosecution of financial crime cases and asset recovery.

Further, there is the AML/CFTP National Task Force of Senior Officials, which meets quarterly to address matters relating to the implementation of international AML/CFTP standards in Zambia. To further facilitate cooperation and information exchange, MOUs had been signed by the different agencies on the AML/CFTP National Task Force. However, it was noted that cooperation between AML competent authorities and some of the reporting entities (DNFBPs in particular) was not very effective. With the foregoing, the variable was rated **high** with a score of **0.7**.

**(xv) Effectiveness of International Cooperation**

This variable assessed the effectiveness of international cooperation specifically on whether the jurisdiction actively and effectively rendered and requested mutual legal assistance in relation to AML/CFTP offences.

The assessment established that the jurisdiction utilized both formal and informal platforms for international cooperation. Under the formal platform the jurisdiction was empowered under the Mutual Legal Assistance (MLA) in Criminal Matters Act, Chapter 98 of the Laws of Zambia and Extradition Act, Chapter 94 of the Laws of Zambia to make and receive requests from other jurisdictions for assistance in the investigation and prosecution of offences on ML, associated predicate offenses, related financial crimes.

Table 12 below, show the countries to/from which Zambia sent and received Mutual Legal Assistance related to ML:

**Table 12: Mutual Legal Assistance Requests Made and Received**

MLA Requests Received	MLA Requests Made
Mozambique Namibia	Mozambique USA Saudi Arabia China Hong Kong United Kingdom South Africa Turkiye Switzerland Democratic Republic of Congo

Informally, LEAs and supervisory authorities had entered into arrangements with other institutions such as Interpol, ARINSA, International Anti-Corruption Coordinating Centre (IACCC), SADC Committee on Insurance, Securities and Non-Banking Financial Authorities (CISNA), International Organization for Securities Commissions, GlobE Network, Egmont Group of FIUs which they had effectively utilized for information and intelligence sharing. This had resulted in an increase in successful investigations and asset recovery of cases with a foreign dimension. Additionally, Zambia is one of the focus countries under the Global Forum on Asset Recovery (GFAR) Action Series that provides a forum to link requested and requesting countries for mutual legal assistance, information exchange and to address operational hurdles in transnational investigations.

The assessment established that Zambia is one of the focus countries under the GFAR Action Series that provides a forum to link requested and requesting countries for mutual legal assistance, information exchange and to address operational hurdles in transnational investigations. Also, Zambia is a member of the GlobeE Network and extensively receives and shares information with international counterparts. NPA has signed MOUs with the following countries and institutions: Mozambique, Hong Kong, FIC Botswana, NPA Namibia, Basel Institute, GiZ, Wildlife Crime Prevention, Tobacco Board of Zambia. Irish Rule of Law, Judiciary, Legal Aid Board and Zambia Correctional Facilities

In view of the foregoing, the effectiveness of international cooperation was assessed to be **very high** with a score of **0.8**.

#### **(xvi) Availability of Independent Audit**

This variable assessed whether the country had sound independent auditing practices thereby ensuring that entities were less vulnerable to abuse by criminals. The assessment showed that audit firms and independent auditors in Zambia conducted audits in line with the generally accepted audit standards (GAAS).

Audit firms were required to disclose to the Supervisory Authority, the professional fees paid for audit and non-audit services. It was further established that audit rules required that potential or existing independent auditors and audit firms confirm their independence in writing, as per the auditing standards. According to the assessment, there was open, timely and effective communication between the supervisory authority (Zambia Institute of Chartered Accountants), audit firms

and the accounting profession as a whole on key risks and systemic issues, as well as a continuous exchange of views on appropriate accounting techniques and auditing issues.

The number of integrity breaches by audit firms between 2020 and 2024 were as shown in table 13 below:

**Table 13: Integrity breaches by audit firms**

2020	2021	2022	2023	2024
6	7	9	11	4

The breaches related to unsatisfactory outcomes obtained by the firms from the inspections conducted by ZICA. In light of the foregoing, the variable was rated **high** with a score of **0.7**.

**(xvii) Level of Financial Integrity**

The variable assessed the level of financial integrity, focusing on the quality of business and professional ethics and tax transparency in the country. This variable further assessed whether the country’s tax framework provides for (a) transparency of financial matters of citizens and residents, and (b) the sharing of information by the tax authorities and LEAs, where appropriate.

In relation to tax transparency, the assessment established that the Zambia Revenue Authority (ZRA) had an established legal framework for tax enforcement, as evidenced by the provisions of the Customs and Excise Act, such as Section 5 to 12 which outline powers of an officer and Section 140 to 174 which provide for offences and penalties for non-compliance with the Act. The Income Tax Act, with Sections 98 to 105 outlining various offenses and penalties, and the Value Added Tax Act, with Section 33 to 41 outlining tax administration and enforcement and Section 44 criminalizing tax evasion, further strengthen this legal framework.

While ZRA audit programs were adequately structured and staffed by personnel with qualifications such as the Certificate in Value Added Tax Course 1 and 2, Customs Basic Course, Investigation Course and the Inspector's Course, the number of auditors was found to be inadequate compared to the audit workload. To maintain expertise and ensure quality audits, auditors were retained

in their specialized roles for extended periods. Additionally, the ZRA had implemented measures to safeguard the integrity of its staff, with disciplinary actions taken against those found to have breached ethical standards. There were adequate measures to ensure operational independence by the auditors. Taxpayer education programs had shown positive results with regards to voluntary compliance. Sanctions were imposed for non-compliance, as evidenced by the investigation and prosecution of taxpayers by the ZRA. Surveys to understand taxpayer's understanding of tax audits and factors that led to noncompliance were conducted by the ZRA on a regular basis.

The assessment established that the tax system required natural and legal persons to provide comprehensive information about their income and assets to the tax authorities. In addition, the Income Tax Act required natural and legal persons to provide their Tax Payers Identification Numbers (TPIN) when opening a bank account and when conducting commercial transactions involving property, imports and trading licenses, among others.

False tax declarations, misleading financial records, and existence of different books of accounts for tax purposes were considered serious financial crimes and there were sanctions in the VAT Act, Income Tax Act and the Customs and Excise Act to deal with such crimes.

All LEAs indicated that they heavily relied on books of accounts, bank statements and other financial records of the businesses to trace the money flow when investigating ML, related predicated offences and financial crimes. Further, LEAs had access to information held by the tax authorities upon request, when they investigated ML offenses by a taxpayer.

However, it was noted that between 2020 and 2024, some supervisory authorities (ZICA, PIA and BoZ) had recorded cases of failure by their regulated entities to adhere to codes of conduct. The supervisory authorities reported that they had imposed sanctions on erring reporting entities between 2020 and 2024. The number of sanctions imposed by the Bank of Zambia during the assessment period was high (140).

In light of the foregoing, the level of financial integrity was rated **medium** with a score of **0.5**.

### **(xviii) Effectiveness of Tax Enforcement**

The variable assesses whether the tax laws were enforced fully, fairly, and consistently, through regulatory enforcement in order to promote voluntary compliance with the tax laws and to maintain public confidence in the integrity of the tax system.

The assessment established that tax payers were required to register for the appropriate taxes and obtain a Tax Payers identification Number (TPIN) for their businesses and for bank accounts. Taxpayers were further expected to comply by filing their tax returns and thereafter paying their tax obligations to the Revenue Authority.

It was established that there is a comprehensive legal framework and appropriate regime of sanctions to deter and penalize noncompliance with the tax laws. The sanctions included: additional assessments, fines, fees, penalties, interest, suspension of licenses or TPINs, confiscation, seizure and destruction of prohibited goods, among others. Section 9 of the Customs and Excise Act provides for powers of an officer, while Section 55 of the same Act has general penalties.

In addition, audit inspections by the tax authorities were meant to promote voluntary compliance by taxpayers with the tax laws. The assessment indicated that the tax audit programs were adequately funded and staffed by competent personnel. However, the staffing levels were low compared to the number of audits to be undertaken. Given the foregoing, the variable was rated **high** with a score of **0.7**.

### **(xix) Level of Formalization of the Economy**

This variable assessed the degree to which the economy is formalized, and whether there is significant level of informal economic activity in the country (the larger the informal economy, the lower the level of formalization of the economy). In Zambia, the informal economy was determined to be large in comparison to the formal economy, and had over the years continued to grow. It offered employment for approximately 70% of the employed population and was prominent in the rural areas with 77% of the rural employed population operating in this economy. The informal sector comprised of enterprises which did not comply with the full extent of government laws and regulations. The sector was

typically characterized by its ease of entry, low levels of skills, labour intensive technology, and small firm sizes.

During the period under review, the share of Zambia's informal economy in the country's GDP was estimated to be 38.8% (World Economics), indicating a low level of formalization. Notwithstanding the foregoing, the country had made considerable progress in financial inclusion, evidenced by an increase from 59.3% in 2015 to 69.4% in 2020. Formal financial inclusion significantly increased from 38.2% in 2015 to 61.3% in 2020, and informal financial inclusion decreased from 37.9% in 2015 to 32.2% in 2020. The significant increase in mobile money users from 14% in 2015 to 50.8% in 2020 demonstrated its critical contribution to enhancing financial inclusion in the country. The variable was therefore rated **medium high** with a score of **0.6**.

**(xx) Availability of Reliable Identification Infrastructure**

The variable was assessed under the Banking Sector as **medium** with a score of **0.5** (Source: Banking Sector).

**(xxi) Availability of Independent Information Sources**

The variable was assessed under the Banking Sector as **high** with a score of **0.7** (Source: Banking Sector).

**(xxii) Availability and Access to Beneficial Ownership Information**

The variable was assessed under the Banking Sector as **medium high** with a score of **0.6** (Source: Banking Sector).

**Priority Ranking of Vulnerability Assessment Variables**

Figure 1 below highlights the priority areas in relation to the country's combatting ability:

**Figure 1: Priority Ranking for ML Combatting Ability Factors**

Priority Ranking for National ML Combatting Ability Factors	Priority Ranking
Quality of AML Policy and Strategy	
Effectiveness of ML Crime Definition	
Comprehensiveness of Asset Forfeiture Laws	
Quality of FIU Intelligence Gathering and Processing	
Capacity and Resources for Financial Crime Investigation	
Integrity and Independence of Financial Crime Investigators	1
Capacity and Resources for Financial Crime Prosecution	
Integrity and Independence of Financial Crime Prosecutors	
Capacity and Resources for Judicial Processes	4
Integrity and Independence of Judges	
Quality of Border Controls	7
Comprehensiveness of Customs Regime on Cash and Similar Instruments	
Effectiveness of Customs Controls on Cash and Similar Instruments	2
Effectiveness of Domestic Cooperation	
Effectiveness of International Cooperation	
Formalization Level of Economy	5
Level of Financial Integrity	8
Effectiveness of Tax Enforcement	
Availability of Independent Audit	
Availability of Reliable Identification Infrastructure	3
Availability of Independent Information Sources	
Availability and Access to Beneficial Ownership	5

According to the priority ranking the following are the variables that should be prioritized:

- (a) Integrity and Independence of Financial Crime Investigators;
- (b) Effectiveness of Customs Controls on Cash and Similar Instruments;
- (c) Availability of Reliable Identification Infrastructure;
- (d) Capacity and Resources for Judicial Processes; and
- (e) Availability and Access to Beneficial Ownership Information.

#### **2.4. Sector Vulnerability**

The sectors that were assessed by other groups and included in the national vulnerability assessment were the following:

- (i) Banking sector;
- (ii) Insurance and Pensions sector;

- (iii) Securities (Securities) sector;
- (iv) Other Financial Institutions;
- (v) Dealers in Precious Metals and Stones;
- (vi) Real Estate Agents;
- (vii) Accounting Firms;
- (viii) Law Firms; and
- (ix) Casinos.

Table 14 below shows vulnerability scores for each sector based on the weighted approach which reflects the importance/ contribution of each sector to the country's economy. The table also indicates the priority ranking for each sector.

**Table 14: Vulnerability scores and priority ranking for each sector**

Sectors	Sector Final ML Vulnerability Score	Priority Ranking
<b>Payment Service Providers</b>	0.64	1
<b>Banking</b>	0.52	2
<b>DPSM</b>	0.68	3
<b>Real Estate</b>	0.63	4
<b>Securities</b>	0.45	5
<b>Casinos</b>	0.77	6
<b>Law Firms</b>	0.62	7
<b>Money Lenders</b>	0.51	8
<b>Accounting/ Audit Firms</b>	0.41	9
<b>Micro Finance Institutions</b>	0.36	10
<b>Insurance and Pensions</b>	0.35	11
<b>Bureaux de Change</b>	0.32	12

The sectors with the highest vulnerability were the casino sector, dealers in precious metals and stones, law firms, real estate and Payment Service Providers. The assessment established that the high vulnerability of payment service providers was largely attributed to their reliance on agents, frequent use of international wire transfers and very high levels of cash activity in the sector.

The priority ranking for the sectors indicated that the country should prioritize the Payment Service Providers sector, followed by the banking, DPSM, real estate and securities sectors.

## 3.0 CHAPTER THREE: BANKING SECTOR MONEY LAUNDERING RISK

### 3.1 Objectives

The main objectives of the Banking Sector Vulnerability assessment were to:

- (i) Identify the overall vulnerability of the banking sector;
- (ii) Identify bank products/services/channels with high vulnerability; and
- (iii) Prioritize action plans that would strengthen anti-money laundering controls (AML controls) in the banking sector.

### 3.2 Money Laundering Risk Level of the Banking Sector

The money laundering risk level of the Banking sector was assessed as **medium**. This was as a result of the ML vulnerability threat being assessed as **medium**.

### 3.3 Overview of the Banking Sector

The banking sector in Zambia plays a significant role in the AML/CFTP regime as it is the sector that accounts for the largest portion of the financial sector.

The banking sector is the major facilitator of financial transactions in the economy and provides a platform through which transactions from all sectors occur. Commercial banks are the largest sub-sector in the financial sector in Zambia with combined total assets of **ZMW 2274 billion** and liabilities of **ZMW 241 billion** as at 31st December 2024 and the sector contributed an estimated 40% to Gross Domestic Product (GDP).

The number of licensed commercial banks as at 31 December 2023 was 17. Following regulatory approval for an acquisition and merger of two banks in 2023, the amalgamation of the two banks took effect in January 2024, further, in April 2024, the Bank of Zambia took possession of one (1) locally owned bank which was subsequently placed under liquidation, bringing the total number of banks as at 31 December 2024 to 15. The banking sector is comprised of the 15 banks out of which, ten (10) were subsidiaries of foreign banks, one (1) was locally owned while four (4) were partly owned by Government of the Republic of Zambia. Table 15 below depicts classification of the Banking Sector as at 31 December, 2024:

**Table 15: Classification of the Banking Sector as at 31 December 2024**

No.	Type of Bank	Number of Institutions
1	Subsidiaries of foreign banks,	10
2	Locally owned private banks	1
3	Banks Partly owned by government	4
	<b>Total</b>	<b>15</b>

Source: Bank of Zambia

### **3.4 Supervision and Regulation**

The banking sector is supervised by the Bank of Zambia (BoZ) whose mission is to achieve and maintain price and financial system stability to foster an inclusive economic development. BoZ is charged with the responsibility of regulating and supervising commercial banks as per provisions under the Banking and Financial Services Act (BFSA) No. 7 of 2017 as read with the Anti-Money Laundering (AML) Directives issued in 2017. The FIC is the main regulator of the AML/CFTP for all reporting entities. Section 2 of the FIC Act designates Bank of Zambia as a Supervisory Authority.

The banking sector in Zambia covers a wide range of services/products offered to the customers. These products can be broadly classified under corporate banking and retail banking.

### **3.5 Money Laundering Vulnerability Level of the Banking Sector**

The overall banking sector vulnerability was assessed using the general AML control variables affecting the entire banking sector and specific product/service input variables offered by the commercial banks. In assessing the AML general controls, 13 variables were considered as outlined below.

### **3.6 Anti-Money Laundering Control Variables Assessment**

The overall banking sector vulnerability to ML was assessed to be **medium** with a score of **0.52** on account of comprehensiveness of AML legal framework which was rated as **close to excellent** with a score of **0.9**. Further, availability and

effectiveness of entry controls was rated as **close to excellent** with a score of **0.9**. Whereas, the effectiveness of supervisory procedures and practices, the AML knowledge of bank staff were rated as **close to excellent** with a rating of **0.9**. Furthermore, availability and enforcement of criminal sanctions, level of market pressure to meet AML standards, effectiveness of compliance systems and effectiveness of suspicious activity monitoring and reporting were all rated **very high** with a score of **0.8**. Although notable improvements were observed in the ratings of the majority of variables from the 2016 NRA, it was noted that the overall vulnerability was rated **medium**.

Figure 2 below outlines the overall assessment of the AML control variables indicative of the rating thereof:

**Figure 2: Overall assessment of the AML control variables**

BANKING SECTOR	ASSESSMENT RATING	
<b>A. GENERAL INPUT VARIABLES</b>		
<b>Comprehensiveness of AML Legal Framework</b>	(0.9) Close to Excellent ▼	<b>0.9</b>
<b>Availability and Enforcement of Criminal Sanctions</b>	(0.8) Very High ▼	<b>0.8</b>
<b>Level of Market Pressure to Meet AML Standards</b>	(0.8) Very High ▼	<b>0.8</b>
<b>Availability and Effectiveness of Entry Controls</b>	(0.9) Close to Excellent ▼	<b>0.9</b>
<b>Effectiveness of Supervision Procedures and Practices</b>	(0.9) Close to Excellent ▼	<b>0.9</b>
<b>Availability and Enforcement of Administrative Sanctions</b>	(0.7) High ▼	<b>0.7</b>
<b>Integrity of Banks' Staff</b>	(0.6) Medium High ▼	<b>0.6</b>
<b>AML Knowledge of Banks' Staff</b>	(0.9) Close to Excellent ▼	<b>0.9</b>
<b>Effectiveness of Compliance Systems</b>	(0.8) Very High ▼	<b>0.8</b>
<b>Effectiveness of Suspicious Activity Monitoring and Reporting</b>	(0.8) Very High ▼	<b>0.8</b>

<b>Availability and Access to Beneficial Ownership Information</b>	(0.7) High	<b>0.7</b>
<b>Availability of Reliable Identification Infrastructure</b>	(0.5) Medium	<b>0.5</b>
<b>Availability of Independent Information Sources</b>	(0.7) High	<b>0.7</b>

**Note:** Higher ratings reduce the banking sector vulnerability; lower ratings increase the banking sector vulnerability to ML risk.

Figure 3 below shows the vulnerability of the banking sector for the AML control variables:

**Figure 3: Vulnerability of the Banking Sector for the AML control Variables**

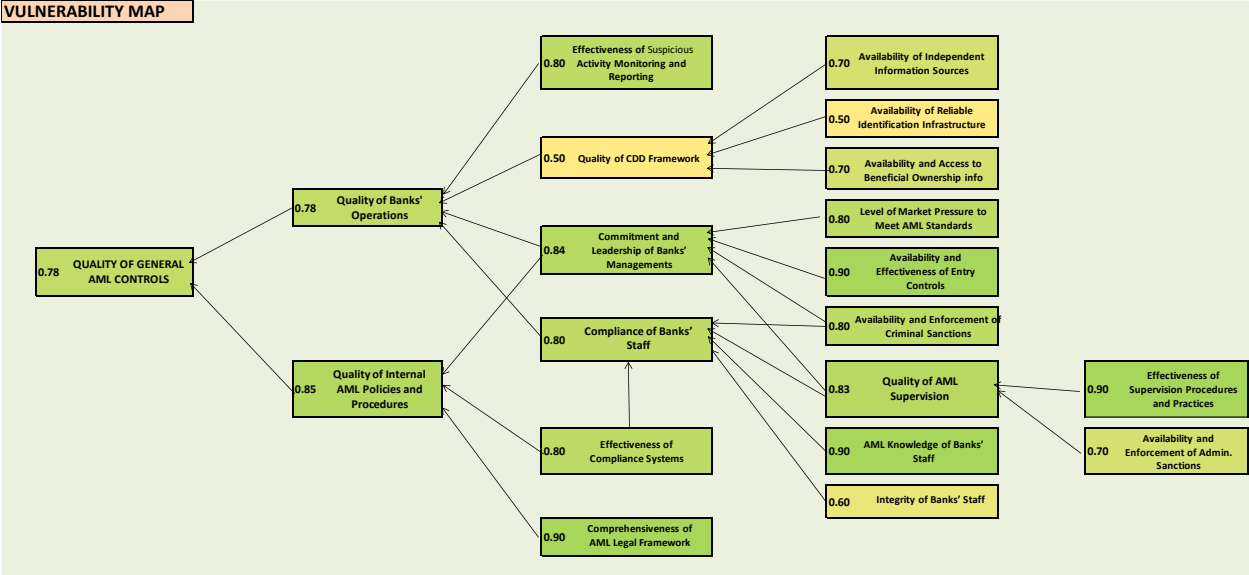


Figure 3 above indicates that the assessment of the vulnerability to money laundering risk of the banking sector taking into account the AML control variables is considered to be **medium** with a score of **0.52**. The paragraphs below discuss in detail the parameters and rationale used to allot the specific ratings to each AML general control variable.

### **3.7 Quality of Anti Money Laundering General Controls**

#### **(i) Comprehensiveness of the AML Legal framework**

The BoZ is designated as a supervisory authority under section 2 of the FIC Act and is charged with responsibility of monitoring and ensuring that the commercial banks comply with their AML/CFT obligations under the FIC Act.

The following are the key pieces of legislation for the banking sector: The Financial Intelligence Centre Act No. 46 of 2010, the Bank of Zambia Act No. 5 of 2022, the Banking and Financial Services Act (BFSA) No. 7 of 2017, the Prohibition and Prevention of Money Laundering Act No. 14 of 2001, the Public Interest Disclosure (Protection of Whistleblowers) Act No. 4 of 2010, the Anti-Terrorism and Non-Proliferation Act, No. 6 of 2018 and the Forfeiture of Proceeds of Crime Act No.19 of 2010.

The Bank of Zambia issued AML/CFT Directives in 2017 and the Guidelines on Fit and Proper Test for Shareholders, Directors and Senior Management in 2023. Additionally, FIC has issued guidelines applicable to the banking sector including the Guidelines on AML/CTPF Independent Audits- 2021, Guidelines on AML/CFT Policy - 2020, the Banking Sector Reporting Guidelines- 2019, Guidance Note on Political and Influential Persons- 2021 and STR Reporting Procedures - 2022.

The country has further issued the Regulation to implement the United Nations Security Council Resolutions (UNSCRs) dealing with ML/TF/PF which commercial banks are required to comply with.

In assessing the comprehensiveness of laws and regulations, the following aspects were taken into account:

- (a) Risk based Customer Due Diligence (CDD), including verification of beneficial ownership of customers that are natural persons/legal entities/legal arrangements);
- (b) Record keeping;
- (c) Enhanced Due Diligence for Prominent Influential Persons (PIPs) and high-risk countries;
- (d) Customer Due Diligence in case of correspondent banking;
- (e) New technologies;

- (f) Wire transfers;
- (g) Reliance on Customer Due Diligence by third parties;
- (h) Suspicious Transaction Reporting;
- (i) Licensing;
- (j) Tipping-off and confidentiality;
- (k) Internal controls;
- (l) Regulation, the supervision of financial institutions, foreign branches and subsidiaries; and
- (m) Supervisory powers.

The assessment concluded that these aspects have been provided for in the laws and regulations mentioned above.

With the foregoing analysis and discussion, the 'Comprehensiveness of the AML Legal Framework' variable was rated **close to excellent** with a score of **0.9**. This is due to the existence of comprehensive laws and regulations with regard to AML preventive measures and AML supervision in the country and in particular for the banking sector.

## **(ii) Availability and Enforcement of Criminal Sanctions**

This variable assesses whether the country takes criminal enforcement steps against a bank or individual member of management or staff in case of non-compliance with AML obligations. It should be noted that the FIC Act, 2010, the Forfeiture of Proceeds of Crimes Act, 2010, the Penal code Cap 87 of the laws of Zambia, the Prohibition and Prevention of Money Laundering Act, 2001 and the Anti-Terrorism and Non-Proliferation Act, 2018 prescribe criminal sanctions for non-compliance with the legislation. Therefore, it can be concluded that generally, Zambia has a legal framework that has comprehensive criminal penalties in case of non-compliance with AML Laws and Regulations.

The statistics provided by the Anti-Money Laundering Investigations Unit (AMLIU) under the DEC, indicated that thirty-three (33) cases involving fraud, theft, tax evasion and money laundering were investigated with a value of ZMW 28.7 million and USD 8.2 million during the period under review. Whereas the Judiciary reported two (2) ML related cases with a value of ZMW38 million with no convictions.

Based on the above analysis, the variable was rated **very high** with a score of **0.8**.

### **(iii) Level of Market Pressure to Meet AML Standards**

The majority of commercial banks hold correspondent banking relationships which require compliance with international standards which have implications on the level of market pressure to comply with the international standards. Commercial banks with correspondent banking have to comply with these international standards set by FATF, Wolfberg Group and the Basel Committee on Banking supervision.

The assessment revealed that banks sensitivity to market pressure to comply with international and national AML matters was relatively high. All banks interviewed stated that pressure to comply with obligations to meet their AML standards at the time of establishing the business relationship and on an ongoing basis was exerted by their head offices and other correspondent banks.

The assessment established that there is pressure to meet the AML standards from the international rating agencies, foreign investors and the correspondent banks that may de-risk the banks for noncompliance to AML. The commercial banks appreciated the reputational risk that could result from non-compliance with international and domestic AML standards. Based on the foregoing, the variable was rated **very high** with a score of **0.8**.

### **(iv) Availability and Effectiveness of Entry Controls**

The BoZ has the mandate to protect and preserve the integrity of the financial system and the safety and soundness of individual financial service providers. As a supervisory authority of the banking sector, the BoZ is responsible for licensing of commercial banks intending to operate in Zambia.

To minimize the likelihood of criminals or their organizations from taking control of or setting up their own commercial banks, the BoZ has put in place a rigorous licensing process, which ensures that only 'fit and proper' persons are allowed to own and manage financial institutions. To this end, the BoZ has developed effective market entry screening tools and other controls that prevent criminals and their associates from holding or being the beneficial owners of a significant or controlling interest or holding a management function in financial institutions.

The BFSA, specifically Sections 4 to 7, and Section 4 of the BoZ Act provide for the powers of the BoZ to license commercial banks. In this regard, no commercial bank is allowed to operate in Zambia without a license. As such, any commercial bank intending to operate in Zambia is required to make a formal application to the BoZ. The BoZ conducts a rigorous evaluation process which includes the security vetting of shareholders, beneficial owners, directors and senior management as part of the fit and proper assessment. The BoZ has established a Licensing Committee which is mandated to evaluate the authenticity of the applications before a license could be granted. The Licensing Committee checks that due process was followed in conducting evaluations and reviews the conclusions made before recommending approval of licenses.

Additionally, these supervisory expectations have been conveyed to financial service providers through the Bank of Zambia Corporate Governance Directives 2016, the BoZ Anti Money Laundering Directives 2017 and the BoZ Fit and Proper Guidelines 2023. On an ongoing basis, the BoZ requires all banks to comply with AML national requirements, laws and regulations.

During the period under review, the BoZ did not receive any license applications from prospective commercial banks. However, the BoZ received and granted 2 applications for corporate restructuring transactions arising from an acquisition of one bank by another resulting in a merger of the banks. Further, no licenses were suspended or revoked, which could have resulted from failure by commercial banks to meet AML controls. Further, the BoZ interacts with competent authorities to conduct the screening process. In light of the analysis above, the variable was rated **close to excellent** with a score of **0.9**.

#### **(v) Effectiveness of Supervision Procedures and Practices**

This variable was used to assess whether BoZ has a comprehensive supervision regime regarding the prevention of ML that is supported by appropriate powers, personnel and other resources available to the supervisory and the regulatory authorities.

The BoZ carries out its supervisory activities within a comprehensive supervisory framework (which includes clear supervision policies, procedures and manuals). This framework is updated regularly to meet international standards. In some

instances, reviews are conducted where there is a change in legislation, risk environment and/or when there is a change in the international standards.

The BoZ established a dedicated AML unit in January 2024. The department has sufficient trained human resource and employs effective tools to carry out AML examinations. The BoZ and FIC conducted a total of ten (10) AML examinations. Of these examinations, one was in collaboration with the Reserve Bank of South Africa. The BoZ imposes sanctions on commercial Banks that do not adhere to AML laws and regulations.

The BoZ employs a risk-based supervision monitoring and inspections. Identified supervisory findings and any breaches of non-compliance to AML are communicated to the banks and discussions are also held with the bank officials. Banks are directed to develop and submit action plans to remedy the deficiencies or weaknesses observed from the inspections. Follow-up procedures are in place to check whether the banks take remedial action regarding the findings of the inspections. The BoZ on an annual basis conducts awareness to the banking sector on AML. The assessment established that the BoZ has made notable strides to ensure a high level of AML compliance in the banking sector. Based on the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(vi) Availability and Enforcement of Administrative Sanctions**

The Zambian legal framework on the banking sector has proportionate, and dissuasive administrative sanctions applicable to natural or legal persons in cases of non-compliance with AML laws and regulations. In particular, the provisions under sections 36(3), b and 37(6) of the Financial Intelligence Centre Act require the BoZ to impose administrative sanctions. In the Zambian legal framework, an administrative action can be taken against a bank, individual members of bank management or staff, in cases of non-compliance with AML obligations. These administrative sanctions include:

- (a) Caution the reporting entity not to repeat the conduct which led to the non-compliance;
- (b) a reprimand;
- (c) a directive to take remedial action or to make specific arrangements to remedy the situation;
- (d) the restriction or suspension of certain specified business activities;

- (e) publication of a public notice of any prohibition or requirement imposed by the FIC; and
- (f) a financial penalty not exceeding one million penalty units.

During the period under review, the FIC imposed financial penalties on four (4) commercial banks for breach of their AML obligations under the FIC Act 2010, whereas one (1) commercial bank was directed to take remedial action on the deficiencies that were found. The BoZ in collaboration with the FIC had sanctioned six (6) commercial banks in the period under review.

The assessment established that officials working in the banking sector are aware that administrative sanctions/penalties could be imposed on individual staff members by the BoZ or the FIC for non-compliance to AML requirements.

Further, the assessment established that administrative sanctions in place are sufficient to positively influence bank management and staff behaviour to comply with AML obligations. In light of the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(vii) Integrity of Banks' Staff**

The assessment established that the banks had put in place measures aimed at enhancing the knowledge and skills, to ensure bank employees do not turn a blind eye, collude with criminals, or engage in corrupt activities. Some of the policies implemented to enhance staff integrity include the Ethics Policy, Whistleblower Policy, Code of Conduct, and Risk Management Policy.

The assessment established all banks have developed and implemented measures aimed at enhancing the knowledge and skills, to ensure bank employees do not turn a blind eye, collude with criminals, or engage in corrupt activities. Some of the policies developed and implemented to enhance staff integrity include the Ethics Policy, Whistleblower Policy, Code of Conduct, and Risk Management Policy.

It was also established that banks conducted screening processes prior to recruiting new staff. Banks obtained police clearance prior to recruiting staff. Further, the BoZ conducts the vetting of senior management staff and verifies the documentation received. The banks conduct on-going training for staff on

AML/CFTP policies and the take disciplinary action against their staff for breaches of the policies.

Integrity failures by staff was noted by the assessment where it was established that cases of fraud and theft culminated into disciplinary actions taken against erring staff. The assessment established that between 2020 and 2024, 8 out of 16 banks reported 119 integrity failures, leading to disciplinary measures such as asset recovery, reprimands, warnings, blacklisting and dismissals.

The banks indicated that they have mechanisms for detecting incidences of integrity breaches related to reporting obligations. Banks have put in place a number of mechanisms to prevent and dissuade staff from breaching AML/CFT policies such as:

- (a) Refresher training and coaching;
- (b) Role rotation;
- (c) Duo control of systems and vaults;
- (d) Demotions; and
- (e) Disciplinary action.

Commercial banks also conduct ongoing compliance monitoring and independent testing is conducted by auditors. Further, the banks indicated that they have put in place confidentiality mechanisms for staff to report suspicious transactions. Therefore, the banks regard their staff as secure from corruption by criminals.

Notwithstanding mechanisms developed and implemented by banks to enhance staff integrity, there has been an increase in the integrity breaches over the period under review. In light of the foregoing, the variable was rated **medium high** with a score of **0.6**.

#### **(viii) AML Knowledge of Banks' Staff**

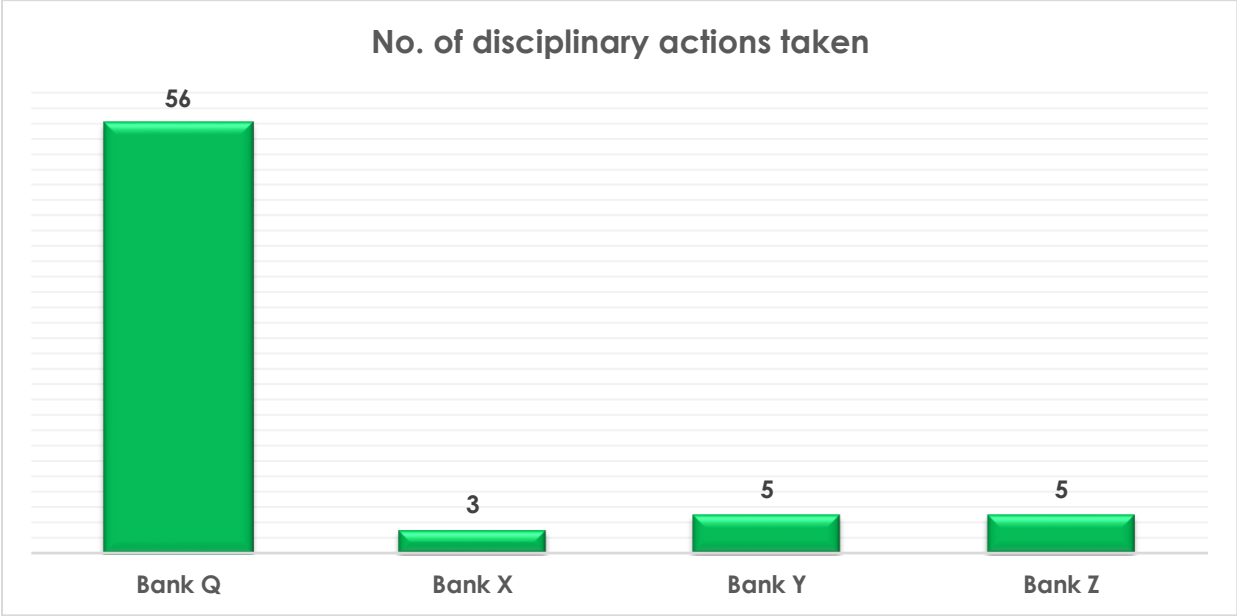
This variable was used to assess whether the bank personnel have understanding of their obligations and duties regarding the prevention of money laundering. When assessing the knowledge of the bank officers, consideration was made to the quality of training material, training frequency and level, as well as the type of personnel receiving the training.

It was noted that all banks have developed board approved AML/CFTP policies. Fourteen (14) of the fifteen (15) banks surveyed indicated that they conduct AML/CFTP training for their respective board of directors, bank staff and relevant third parties annually. AML training is provided to certain categories of staff such as front office staff and compliance officers. The assessment further established that the training is mostly delivered virtually, and the content was updated regularly to reflect emerging trends and typologies in the AML/CFTP space. The banks also stated that they conduct AML training inductions for new recruits.

Only four (4) banks indicated that disciplinary action was taken against staff who did not undertake the AML/CFT training, such as being locked out of the banks' operating systems and poor rating during appraisals.

Figure 4 below shows the number of disciplinary actions taken for non-attendance of mandatory AML trainings by banks:

**Figure 4: Number of disciplinary actions taken in the last 5 years**



The assessment established that the majority of the bank staff understood the legal consequences of AML compliance breaches which may result among others, imprisonment. In light of the foregoing, the variable was rated as **very high** with a score of **0.8**.

### **(ix) Effectiveness of Compliance Systems**

This variable assessed whether the banks had an effective function of compliance with the AML regulations that enabled a high level of compliance with the standards in the whole banking sector. It was also considered whether the function of compliance with the AML/CFTP regulations reflected the relevant international principles and recommendations.

Fifteen (15) banks had promulgated AML policies which fulfil the requirements under section 23 of the FIC Act to enforce an effective compliance function. Hence the assessment concluded that there was a relatively high level of compliance of the banking sector with local regulations and international recommendations especially for international banks.

Further, all banks had implemented Compliance functions in line with the local laws/regulations such as the FIC Act 2010, BoZ AML Directives 2017 and Prohibition and Prevention of Money Laundering Act, 2001 and the FATF recommendations.

The assessment established that all 15 banks had designated Compliance Officers at management level.

During the period under review the FIC noted an increase in the number of suspicious transaction reports and cash transaction reports from commercial banks indicating the effectiveness of the compliance systems.

The assessment established that the compliance systems in the banking sector were working effectively based on the establishment of compliance functions, compliance officers at management levels, increased STR and CTR reporting and annual audits. Therefore, the effectiveness of compliance systems variable was rated as **very high** with a score of **0.8**.

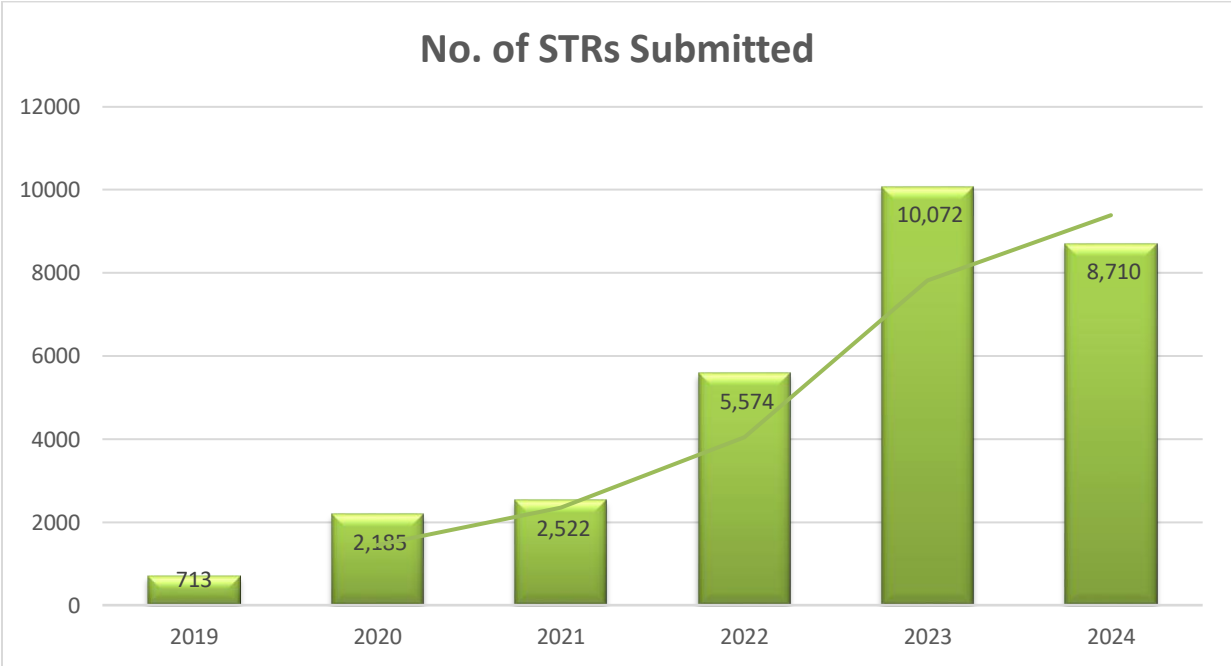
### **(x) Effectiveness of Suspicious Activity Monitoring and Reporting**

This variable was used to assess whether banks have appropriate information systems for support to AML policies and procedures. The assessment revealed that all banks have implemented risk-based policies, procedures and monitoring processes for the identification and reporting of suspicious activities. Further, the assessment revealed that the banks use a combination of automated and

manual methods to monitor transactions for suspicious activities. As much as most banks have implemented the transaction monitoring systems, the manual process requires human intervention which leaves room for error hence affecting the effectiveness of monitoring suspicious activities. Further, where lapses in the quality of STRs is noted, the FIC rejects the STRs and provides feedback to the reporting entities to achieve the desired quality.

During the period under review, the FIC Trends Reports showed that banks submitted a total of 29,776 STRs, of which 1,696 were rejected due to poor quality. Figure 5 below shows the trend of STRs reported to FIC for the past 5 years:

**Figure 5: Number of STRs submitted by the Banking Sector**



The assessment concluded that there has been tremendous improvement in the transaction monitoring and reporting of suspicious transactions during the period under review.

In view of the foregoing, the variable was rated **very high** with a score of **0.8**.

## **(xi) Availability and Access to Beneficial Ownership Information**

This variable was used to assess whether it is easy for criminals to hide their shares and ownership rights in legal entities (corporations), trusts or similar structure registered in or administered from within the country.

Sections 123 and 124 of the Companies Act No. 10 of 2017 introduced mandatory declaration of beneficial owners by all incorporated companies. In addition, Section 16 of the Financial Intelligence Centre Act, No. 46 of 2010 requires banks to identify and verify the legal name, head office address, identities of directors, proof of incorporation or similar evidence of legal status and legal form, provisions governing the authority to bind the legal person, and such information as is necessary to understand the ownership and control of the legal person.

The assessment revealed that commercial banks had access to beneficial ownership information maintained at PACRA. It was also revealed that there was use of commercial databases as a supplementary source of information especially for foreign companies. Open internet searches were also cited as supplementary sources to get additional information. There have been notable improvements recorded during the period under review regarding the availability and access to beneficial ownership information by commercial banks. Notable improvements include:

- (a) Inclusion of a mandatory beneficial ownership information disclosure requirement in the Companies Act No. 10 of 2017;
- (b) The upgrade of the PACRA database had allowed for more access to information including the ability to search the beneficial ownership registry, among others; and
- (c) Awareness and commitment by stakeholders created by the FIC through the study on Beneficial Ownership (BO) information and recommendations therein issued in 2023.

Notwithstanding the foregoing, the assessment revealed that there were some challenges with the BO registry. It was noted that most corporate vehicles registered under the repealed Companies Act Cap 388 were found not to have disclosed their BO to PACRA. This was largely attributed to low awareness levels on the requirements in the new Companies Act No 10 of 2017. Further, it was noted that banks encountered challenges in collecting and verifying BO

information as customers especially foreigners are reluctant to provide information. This is more difficult when the corporate or trust is in a foreign jurisdiction.

Additionally, the Land (Perpetual Succession) Act of 2020 requires trusts to disclose the BO. In this regard, Ministry of Lands and Natural Resources had started collecting BO information on express trusts.

From the foregoing, it can be concluded that there are sufficient measures put in place to identify beneficial owners of legal entities. To this effect, the assessment of the 'availability and access to beneficial ownership Information' variable was rated **medium high** with a score of **0.6**.

#### **(xii) Availability of Reliable Identification Infrastructure**

This variable assesses whether AML-regulated institutions are able to verify the identity of customers using reliable, independent source documents, data or information. The variable checks whether a good identification infrastructure exists, and information is available or whether AML-regulated institutions can rely on the country's identification infrastructure.

Section 16 of the Financial Intelligence Centre Act, 2010 and the FIC (General) Regulations, 2022 require banks to identify and verify natural persons and legal persons using independent source documents or information such as the National Registration Card (NRC), a valid Passport, valid Driver's license or certificate of incorporation before commencing any banking relationship.

The assessment noted that commercial banks use the national identity documents issued by various Government departments for purposes of customer identification and verification.

The assessment noted that the government launched the Integrated National Registration Information System (INRIS) to digitize the management of civil registration and national identity in Zambia. The INRIS links the management of civil registration and issuance of national identity cards, creates a centralized biometric enabled national database of citizens and non-citizens living in Zambia. Further, the INRIS issues biometric enabled identification cards. However, at the time of the NRA the INRIS project was not fully operational.

In addition, the BoZ issued Commercial Bank (CB) Circular No. 5 of 2022 (Banking Sector Compliance with the Taxpayer Identification Number) which requires commercial banks to obtain Taxpayer Identification Numbers (TPIN) for all existing and new account holders. Further, in October 2022, ZRA made it mandatory for all employers to provide their employee's taxpayers identification numbers (TPINs). Additionally, section 45B (1) of the Income Tax Act requires a person to have a TPIN when applying for services such as registration of motor vehicles or land title, transfer of property e.g. land or buildings, import and trade licenses or engaging in a transaction such as buying and selling of shares, mining rights, Zambia Electricity Supply Cooperation Limited (ZESCO) payments of electricity units and power connection.

The assessment noted that the identification infrastructure in the country has improved during the period under review. However, the slow pace of implementing the INRIS projects by the government had an impact on the identification and verification of persons. Therefore, the assessment of the 'availability of reliable identification infrastructure' variable was rated **medium** with a score of **0.5**.

### **(xiii) Availability of Independent Information Sources**

This variable assesses the availability of independent and reliable sources of information to determine transaction patterns and commercial history of clients.

The assessment revealed that there are independent information sources available in the country which are easily accessible by the banks. It was observed that all banks have access to independent information sources to identify and verify clients' transactional patterns and commercial history. This information includes data held by the Credit Reference Bureau (CRB), Mobile Network Operators (MNOs), PACRA, Registrar of Societies, ZESCO and ZRA.

The assessment revealed that banks have access to additional sources of information including, previous or other banking relationships, audited company financial statements, employer confirmations or pay statements, letters of introduction from employers, tenancy/lease agreements, commissioner of oaths, use of third party databases for company incorporation searches, reference letters from employers for new recruits, professional bodies, land records through

the Ministry of Lands and from the Zambia Information and Communications Technology Authority (ZICTA).

Based on the foregoing assessment, the variable was rated **high** with a score of **0.7**.

Priority areas have been identified from the assessment of the AML Control variables as follows:

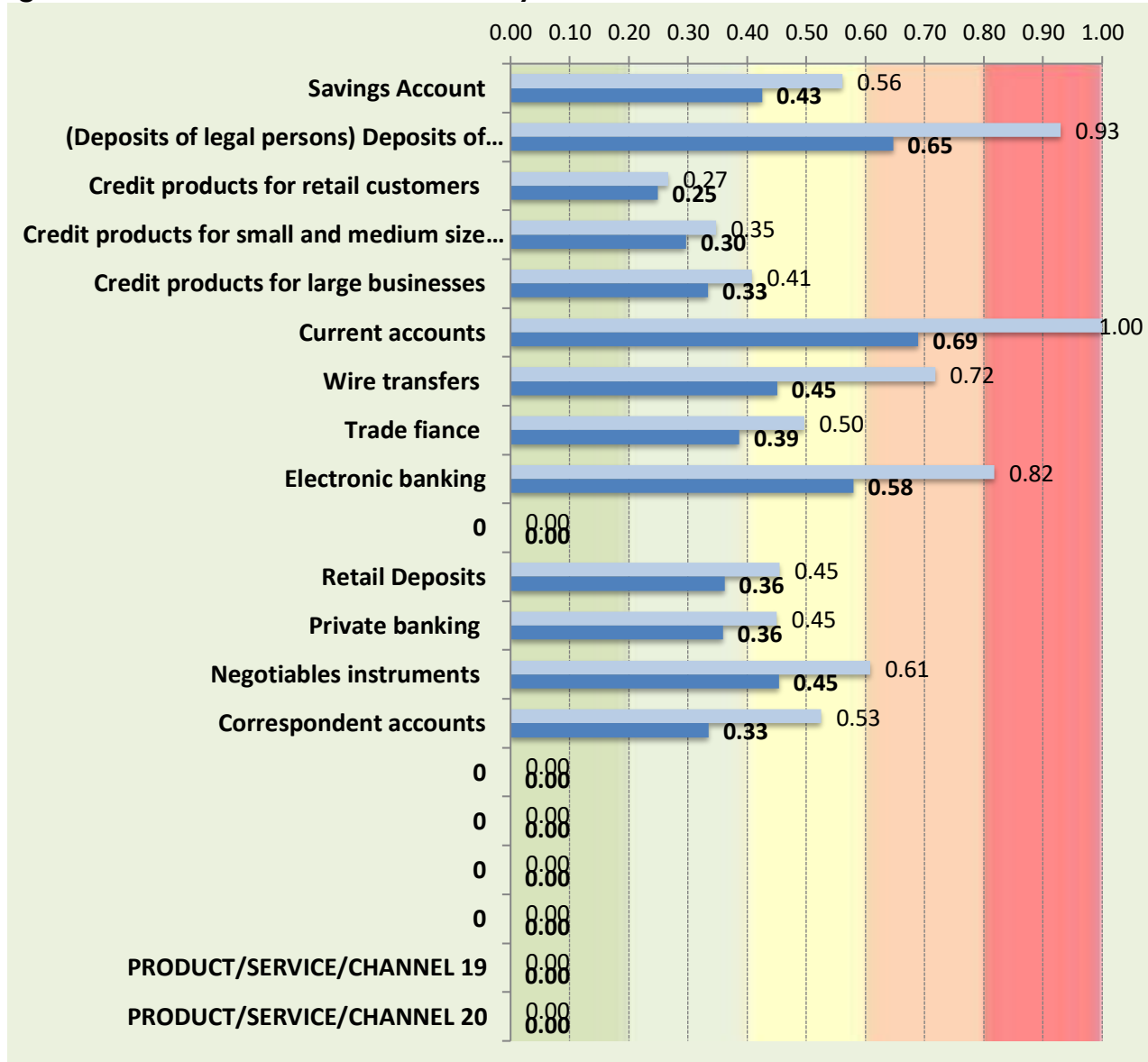
**Figure 6: Main Priority Areas in the Banking Sector for AML Control Variables**

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

### 3.8 Assessment of Product Specific Variables

The vulnerability emanating from products or services in the banking sector is summarized in figure 7 below:

**Figure 7: Product /Service Vulnerability**



**Key: L = Low, ML = Medium Low, M= Medium, MH = Medium High, H=High**

The basis for the above rating has been explained in details below:

## (i) Private Banking

Private Banking provides personalised banking services to high-net-worth individuals that may include services such as wealth management and investment products. Of the 15 banks that provided responses, only five indicated that they offer private banking. Private banking includes priority banking, premium banking and executive banking. The private banking client base holds high net worth customers who may also include prominent and influential persons and may require complex accounts/transactions in their financial portfolio. Considering this, enhanced and on-going due diligence is applied to ensure that the customer profile is regularly reviewed and assessed for ML Risks.

In assessing the private banking product, a number of components/ features were considered. In terms of the total size of assets and liabilities, this was assessed to be **medium low** on account of low number of assets under management by banks. While the total size of assets and liabilities was assessed as **medium low**, the transaction size and the clients' profile were assessed as **high**. The assessment established that private banking was found to have an investment/deposit feature. The level of cash activity and frequency of international transactions associated with private banking was found to be **low**. The assessment established that non-face-to-face use of the product **available**. The assessment further established that the product may be used for fraud and tax evasion to a limited extent. Considering all factors associated with the product, private banking in Zambia was rated **medium Low** with a score of **0.36**

## (ii) Correspondent Banking

The assessment established that commercial banks in Zambia have correspondent banking relationships. The assessment of the funds flows associated with correspondent banking were found to be high, so was the average transaction size. The assessment revealed that while correspondent banking could allow for the investment/deposits of funds, the same was available but limited. In addition to performing normal customer due diligence, commercial banks are required to gather sufficient information about the respondent bank to understand fully the nature of the respondent's business and access the respondent bank's AML/CFT controls. In view of the foregoing, the risk profile of the customers was assessed as **high**. The use of cash for correspondent banking was **nonexistent** while the frequency of international transactions associated with

the product was found to be **high**. Non-face to face use of the product was **available and prominent** and the product is not offered by agents. It is easy to trace records of correspondent banking.

Therefore, the overall rating of correspondent banking in Zambia was **medium low** with a score **0.33**.

### **(iii) Retail deposits**

The assessments established that 14 of the 15 respondents offered retail deposit products to customers. The total value of liabilities for retail deposits were found to be **medium high**. Further, the assessment revealed a very low average transaction size. The client base profile was found to be **low risk**.

The assessment established that an investment/deposit feature for retail deposits was **available and prominent**, and the level of cash activity was **available but limited** owing to the advancement in electronic and mobile banking systems/services. The frequency of international transactions was assessed as **medium** whereas, the non-face to face use of the product was found to be **available** and the product is widely delivered by agents and assessed as **high**. There exist ML typologies on the retail deposits and the product can be used for fraud and tax evasion. To this effect, the retail deposits product was rated **medium Low** with a score of **0.36**

### **(iv) Wire transfers**

The assessment established that all banks in Zambia offer wire transfer services. The total amount of inflows and outflows for wire transfer was **high** while the average transaction size of the service was **medium high**. The client profile base for wire transfer was **high**. It was established that an investment/deposit feature for wire transfer was **not available** and the level of cash activity does **not exist**. The frequency of international transactions was found to be **high** while non-face-to-face use of the service was **available and prominent**. The delivery of the wire transfer service through agents **does not exist**. The ML typologies on the abuse of wire transfer **exist**. The use of the service in fraud or tax evasion schemes **exists and is significant**. Banks can **easily trace** the transaction records involving wire transfers.

With the foregoing, wire transfers service was rated **medium** with a score of **0.45**.

#### **(v) Electronic Banking**

In terms of funds flows i.e. inflows and outflows, the values were found to be **high**. The average transaction size was found to be **medium**. The client profile base associated with the product was assessed **as high** and the service is accessed by individual and corporate customers. It was further established that an investment/deposit feature was **existent and prominent** for electronic banking.

The level of cash activity for electronic banking **does not exist** and the frequency of international transactions was assessed to be **high**. The non-face-to-face use of the product was found to be **available and prominent**, the **existence** of ML typologies on the abuse of the product was found to be **significant**.

The use of the product in ML, fraud or tax evasion schemes **exists and significant**. Electronic banking services through agents was assessed to be **medium**, and the transaction records for clients are **easy to trace**.

The variable was therefore rated **medium** with a score of **0.58**

#### **(vi) Deposits of Legal Persons**

The assessment revealed that the total value of liabilities for the product was **medium high** while average transaction size was **high**. The client profile base for the product was revealed to be **high**. The assessment established that the investment/deposits feature for the product is **available and prominent** and the level of cash activities associated with the product was **high**. The frequency of international transactions involving the product was found to be **high**. The analysis established that the non-face-to-face use of the product is **available and prominent** transaction records are **easy to trace**. The use of the product in fraud and tax evasion schemes **existed and significant**. The assessment established that the product is delivered through agents at a low rate and transaction records are **easily traceable**. With the foregoing, and having considered factors associated with the product, the overall rating was **medium high** with the score of **0.65**.

### **(vii) Credit products for retail customers**

The assessment established that 14 banks of the 15 that provided responses to the administered questionnaire indicated that they offer credit products for retail customers. The assessment of the total value of the product in terms of the assets was found to be **medium low**, while the average transactions for the product was found to be low. The client profile base for the product was found to be **medium**. The feature of investment/deposit for the product was **not available** while the level of cash activity associated with the product was assessed to be **low**. The frequency of international transactions involving the product was **non-existent**. While the product non-face-to-face usage is **available**, the analysis revealed that the same was not prominent. With the foregoing factors, the product was rated **medium low** with a score of **0.25**.

### **(viii) Credit products for small and medium size businesses**

Credit products for small and medium size businesses are slightly different from credit products for retail customers in that the former comprise credits to small and medium enterprises (SMEs) or entrepreneurs. The total value of assets and the average transactions for the product were rated to be **medium**. The client base profile was rated as **medium risk**. Nonetheless, the product did not have investment/deposit feature while the level of cash activities associated with the product did not exist and there are no international transfers associated with the product. The product may be susceptible for use in fraud or tax evasion schemes; however, transaction records are easy to trace. The non-face-to-face use of the product was not available and the product is not delivered through agents. Therefore, the overall rating for the product was rated **medium low** with a score of **0.30**.

### **(ix) Credit products for large businesses**

Thirteen (13) of 15 banks indicated that they offer credit products for large businesses. The total value in terms of assets following the analysis was found to be **medium-low** with average transaction value for the product being **low**.

The client profile base for the product was established to be **high**. The product allows for the investment/deposit of funds in the financial system. The assessment revealed that the investment/deposit feature was **available**. The assessment

revealed that the level of cash activities associated with the product **does not exist**. The analysis further revealed that the frequency of international transactions was **low** and the product's use for non-face-to-face was **not available** and the delivery through agents **does not exist**. The overall assessment rating for the credit products for large businesses was **medium Low** with a score of **0.33**.

#### **(x) Current accounts**

Current accounts are accounts designed for individual and corporate customers who make frequent financial transactions. All the 15 banks offer current accounts products to customers. The total value of assets was assessed to be **high** while that for liabilities was **medium**. The average transactions size for the product was found to be high while the product is used by various categories of customers; the overall client profile base was found to be **very high risk**. Investment/ deposit feature was **available and prominent**.

The mode of transaction for the product is mostly through electronic means. Further, the assessment established that the level of cash activities associated with the product was **high**. The product is widely used for international transactions and the frequency was found to be **high**. The assessment revealed that the product could be susceptible to money laundering, fraud or tax evasion schemes and the non-face-to-face feature on the product **is available**. It was noted that in some cases transaction records associated with the product are difficult to trace. With the foregoing analysis, the overall assessment rating for the current accounts was **medium high** with a score of **0.69**.

#### **(xi) Trade Finance**

The assessment established that fourteen (14) banks offer trade finance and the total size of assets for the product and the average transaction size were found to be **low**. The client profile base, comprising clients from across different entities, was assessed as **high risk**. The level of cash activity associated with the product **does not exist**. The assessment further established that the frequency for international transactions for the product was **high**. In light of the foregoing, the overall rating was assessed to be **medium Low** with a score of **0.39**.

### 3.9 Assessment of Product/Service Vulnerability

The inherent and final vulnerability of the product/service in the banking sector is depicted in Figure 9 below. It was established that **current accounts** and **deposits of legal persons** are vulnerable to ML. The ratings for these products were **medium high** with scores of **0.66** for each product. Further the assessment revealed that the least vulnerable product was found to be **credit products for small and medium size businesses** whose rating was **medium low** with a score of **0.25**.

**Figure 8: Product Service Vulnerability**

PRODUCT/SERVICE VULNERABILITY	Original Case	
	Inherent Vulnerability	Final Vulnerability
Savings Account	0.56	0.42
(Deposits of legal persons) Deposits of Corporates	0.96	0.66
Credit products for retail customers	0.35	0.29
Credit products for small and medium size businesses	0.28	0.25
Credit products for large businesses	0.61	0.45
Current accounts	0.96	0.66
Wire transfers	0.73	0.46
Trade fiancé	0.68	0.50
Electronic banking	0.85	0.53
0	0.00	0.00
Retail Deposits	0.00	0.00
Private banking	0.96	0.66
Negotiables instruments	0.61	0.45
Correspondent accounts	0.53	0.33

## 4.0 CHAPTER FOUR: SECURITIES SECTOR MONEY LAUNDERING RISK

### 4.1 Objectives

The securities sector risk assessment seeks to identify and understand the capital market threats, vulnerabilities and recommend mitigation measures. Broadly, the objectives of the securities sector vulnerability assessment are to:

- (i) Identify the overall vulnerability of the securities sector;
- (ii) Identify securities institution types that have high vulnerability;
- (iii) Identify on a needs basis the products or services offered by the securities institution types with high ML vulnerability; and
- (iv) Prioritise action plans that will strengthen AML controls in the securities sector.

### 4.2 Money Laundering Risk Level of the Securities Sector

The money laundering risk level of the Securities sector was assessed as **medium**. This was as a result of the vulnerability being assessed as **medium** and the threat being assessed as **medium low**.

### 4.3 Overview of the Securities Sector

The Capital Markets sector in Zambia has registered growth during the period under review. Table 16 below is a snapshot of various clusters of the Securities Sector:

**Table 16 Market Snapshot**

<b>Market Snapshot</b>	<b>As at 31/12/2024</b>
Market Capitalization	ZMW 216,057 billion
Market Cap/GDP Ratio	14.19 Percent
LASI	15,440.90 points
Assets Under Management (Local CIS)	ZMW 2,534 billion
Assets Under Management (Foreign CIS)	ZMW 466 million
Corporate Bonds	ZMW 2,710 billion
Green Bond	USD 150 million
GRZ Bonds Market Cap	ZMW 184.8 billion

**(i) Equities Market**

The equities market in Zambia recorded a growth of 282% from 2019 to 2024. The market capitalization closed at ZMW 216.1 billion in the year ending 31<sup>st</sup> December 2024. A total trade volume of 167,455,320 was recorded for 2024 with a turnover of ZMW 1.1 billion translating into 31,855 trades. Table 17 below shows the market capitalization between 2019 and 2024:

**Table 17: Market Capitalization**

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec 24
In ZMW million (Excl. Shoprite)	22,316	23,269	32,400	38,089	53,928	79,100
In US\$ million (Excl. Shoprite)	1,585	1,098	4,025	2,213	2,641	2,835
In ZMW million (incl. Shoprite)	56,557	57,508	67,184	72,872	88,711	216,057
In US\$ million (incl. Shoprite)	4,017	2,714	4,025	4,234	4,344	7,743
Market Cap/GDP Ratio	40.49%	7.82%	6.57%	8.59%	10.93%	14.19%
Turnover/Market Cap. Ratio	0.47%	0.69%	3.30%	0.76%	5.01%	0.52%
LuSE Depository Cap. (ZMW million)	10,586	11,232	18,976	26,351	39,784	46,502

During the period under review, the trading volumes and activities for the equities market between 2019 and 2024 were as shown in table 18 below:

**Table 18: Trading Volumes and Activity**

TRADING VOLUMES AND ACTIVITY						
	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Volume	83,348,249	1,735,928,605	302,371,893	119,457,839	766,164,934	167,455,320
Turnover (ZMW'000)	266,098	398,141	2,219,983	556,110	4,442,089	1,120,362
No. of trades	4,467	4,215	8,786	20,199	18,157	31,855
Trading days	248	251	245	251	251	251
Daily average	336,082	6,916,050	1,234,171	475,928	3,052,450	667,153

volume						
Daily average turnover (ZMW'000)	1,072	1,586	9,061	2,215	17,697	4,463
Daily average no. of trades	18	17	36	80	72	127

## (ii) Bond Market

With respect to the corporate bond market, new issuances were recorded during the period under review resulting in a total of ZMW5.4 million outstanding as at 31<sup>st</sup> December 2024. The market also recorded its first green bond issuance in December 2023. During the period under review, no trading activity was recorded for corporate bond secondary market trading.

GRZ bonds trade on the secondary market once issued on the primary market by Bank of Zambia. Trading was largely driven by foreign clients represented by global custodians that have sub-custodians operating in the market. Table 19 below indicates GRZ trading activities for 2024:

**Table 19: GRZ Secondary Market Bond Trading Activity**

GRZ BOND SECONDARY MARKET ACTIVITY FOR 2024			
Month	No. of Trades	Face value (ZMW'000)	Market Value (ZMW'000)
January	437	3,694,711	2,698,637
February	699	7,930,347	5,965,967
March	674	5,958,334	5,161,244
April	742	4,458,634	3,702,995
May	746	4,622,733	3,305,161
June	698	4,645,495	3,805,691
July	639	6,033,303	4,561,924,
August	589	4,294,893	3,215,159
September	583	6,895,434	5,866,686

<b>GRZ BOND SECONDARY MARKET ACTIVITY FOR 2024</b>			
<b>Month</b>	<b>No. of Trades</b>	<b>Face value (ZMW'000)</b>	<b>Market Value (ZMW'000)</b>
October	714	11,879,225	11,153,015
November	682	6,863,135	6,325,916
December	661	7,895,394	7,473,264
<b>Totals</b>	<b>7,864</b>	<b>75,171,638</b>	<b>58,673,735</b>

### (iii) Collective Investment Schemes

Assets under Management (AUMs) for Collective Investment Schemes (CIS) recorded a growth of 79% between 2019 and 2024. The AUM for CISs for 2019 - 2024 has been summarized as shown in table 20 below:

**Table 20: CIS Sector Fund Size Statistics**

<b>Year</b>	<b>Dec-19</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec 24</b>
Total Fund Size (ZMW' million)	632	930	1,166	1,690	2,417	3,001

## 4.4 Supervision and Regulation

The Securities Sector is supervised by the Securities and Exchange Commission ("Commission") which draws its mandate from the Securities Act, No. 41 of 2016 (the "Securities Act"). The Securities Act has enhanced the Commission's AML/CFT/CPF supervisory mandate.

The Commission's functions are highlighted under Section 9 of the Securities Act, which empowers the Commission, under Section 9(3) of the Securities Act, to implement a risk-based approach in the supervision and regulation of securities in combating ML/TF/PF, or any other serious offence.

The Commission is designated, under Section 2 of the FIC Act, as a Supervisory Authority for AML/CFT/CPF purposes as well as ensuring compliance by regulated and reporting entities under the securities sector, of their obligations under the FIC Act.

The assessment considered six (6) main Securities sector institutions consisting of

Brokers, Dealers, Investment Advisors, Fund Managers, Commercial Banks (Treasury departments) and Securities Exchanges. Table 21 below shows the number of securities sector operators in each cluster:

**Table 21: Classification of SEC-licensed Institution as at December 2024**

Type of Institution	Number of Institutions
Stockbrokers*	4
Other Dealers*	5
Investment Advisors	23
Fund Managers*	11
Banks (Treasury)*	13
Securities Exchanges	1
Share Transfer Agencies	3

\*Licensed as dealers

#### **4.5 Money Laundering Vulnerability Level of the Securities Sector**

##### **(i) General AML control variables assessment**

The vulnerability of each institution in the Securities Sector to ML was assessed using the AML control variables.

##### **(ii) Comprehensiveness of AML Legal Framework**

The assessment of the comprehensiveness of the AML legal framework revealed that there are existing laws aimed at ensuring compliance by the Securities Sector entities. The following are the key pieces of legislation that were examined:

- (a) the Financial Intelligence Centre Act No. 46 of 2010;
- (b) the Financial Intelligence Centre Act No. 46 of 2010;
- (c) the Securities Act No. 41 of 2016;
- (d) the Prohibition and Prevention of Money Laundering Act, No. 14 of 2001;
- (e) the Public Interest Disclosure (Protection of Whistleblowers) Act, No. 4 of 2010;
- (f) the Penal Code Act, Cap. 87 of the Laws of Zambia;

- (g) the Anti-Terrorism and Non-Proliferation Act No. 6 of 2018; and
- (h) the Forfeiture of Proceeds of Crime Act, No. 19 of 2010.

These laws have provisions that benchmark international standards and best practice. Besides the AML statutes highlighted above, Zambia has a regulatory framework consisting of other regulatory tools such as regulations and directives that are designed to combat Money laundering. These include the FIC General Regulations of 2022 and the SEC directives on AML-CFT/P directives of 2017.

Due to the comprehensiveness of the AML legal and regulatory framework, this variable was rated **Close to Excellent** with a score of **0.9**.

### **(iii) Effectiveness of Supervision Procedures and Practices**

The assessment revealed that SEC understands the ML risk on the market, with significant improvement made from the last NRA including the enhancement of legal provisions on AML/CFT/CPF. The existing legal and regulatory framework creates an enabling environment that facilitates the effective supervision of the Securities Sector. Further, the introduction of a risk based supervisory framework has ensured that SEC focuses its limited resources on areas with the highest risk for ML/TF/PF in the sector. With the aforementioned, the variable was rated **high** with a score of **0.7**.

### **(iv) Availability and Enforcement of Administrative Sanctions**

Section 49 (C) of the FIC Act provides for administrative sanctions. Similarly, Section 218 of the Securities Act provides for administrative sanctions which apply to both natural and legal persons. For instance, in 2024, the Commission imposed fines against entities for breach of the FIC Act. In addition, Section 219 of the Securities Act extends the liability for breaches by legal persons to the directors and managers, the latter of which could also be subject to administrative sanctions.

In addition, SEC has recourse to the powers of suspension or revocation of the licence of a securities sector entity. The Lusaka Securities Exchange (LuSE) trading rules provide for administrative sanctions that may be imposed on Securities Sector entities that are members of the Securities Exchange. Thus, where a LuSE member is in breach of the trading rules, the member will be subject to disciplinary actions ranging from censure and suspension to the delisting of a company, if the

company is listed on the Securities Exchange. Due to the foregoing, the variable was rated **high** with a score of **0.7**.

**(v) Availability and Enforcement of Criminal Sanctions**

The legal framework in Zambia provides for criminal sanctions such as imprisonment and fines. These are prescribed in the FIC Act, the Forfeiture of Proceeds of Crimes Act, the Penal Code, and the Prohibition and Prevention of Money Laundering Act. Further, Sections 218A and 218B of the Securities Act criminalize non-compliance with a provision of the Securities Act. The assessment established that Section 218B is effective, proportionate and dissuasive. During the period under review nine (9) criminal cases were investigated for ML in the Securities Sector, of which four (4) were successfully concluded with prosecution of directors and a non-conviction-based forfeiture of assets that were deemed proceeds of the crime.

In light of the foregoing, the variable was rated **very high** with a score of **0.8**.

**(vi) Availability and Effectiveness of Entry Controls**

The SEC exercises its gatekeeping function by ensuring that only fit and proper persons are allowed to operate in the Securities Sector. The assessment established that the Securities Act has comprehensive provisions on the procedures for licensing new entrants in the market. Further, the Securities Act requires substantial shareholders to be vetted, including their source of funds, as part of the licensing criteria. The Securities Act defines a substantial shareholder as a person who is a beneficial owner of, or is in a position to exert control over, not less than 15% of the shares of a corporate body. A license is not granted to an entity that does not meet the minimum criteria. In addition, securities exchanges also have membership rules which prospective members of the Exchange are required to satisfy before they are admitted as members.

In light of the foregoing, the variable was rated **close to excellent** with a score of **0.9**.

**(vii) Integrity of Staff in Securities Firms**

During the period under review, most securities firms generally regarded their staff

members as upholding integrity, having recorded low incidences of integrity failure and having in place appropriate mechanisms to protect their staff against any negative consequences resulting from reporting of STRs. Most of the entities indicated that they have staff vetting programs in place, However, there is need to enhance the effectiveness of these vetting programs. In light of the aforementioned, the variable was rated **Medium** with a score of **0.5**.

The following outline the analysis of integrity of staff of sub-sectors in the securities market:

**(a) Brokerage firms, Other Dealers and Investment Advisors**

The assessment revealed that most of the brokerage firms, dealers, and investment advisors relied on LEAs for vetting of their staff. However, some entities only relied on internal vetting processes and procedures which excluded the LEAs. A low incidence of integrity failures had been recorded during the period under review. In light of the foregoing, the rating assigned to the variable was **medium** with a score of **0.5**.

**(b) Fund Managers**

The assessment of the integrity of staff of fund managers revealed that two of the eight fund managers indicated that they did not vet prospective employees with LEAs. Reliance was mainly placed on the vetting done by the regulator at licensing stage. Further, some integrity related incidents were recorded for some staff of the fund managers. In light of the foregoing, the rating assigned to the variable on integrity of staff for fund managers was **medium** with a score of **0.5**.

**(c) Securities Exchange**

The assessment revealed that the Securities Exchange did not vet their employees with LEAs. Instead, the entity relied on the vetting done by the SEC for its senior management. No incidences of integrity failure were recorded during the period under review. In light of this, the integrity of staff in the securities exchange was rated **medium** with a score of **0.5**.

#### **(d) Banks (Treasury)**

The assessment revealed that banks conducted vetting for prospective employees involving background checks by LEAs and BoZ. In addition, BoZ undertook a vetting process for regulated roles such as CEOs, CFO and Head of Compliance for competence and integrity. The banks had implemented a robust approach to ensure staff with integrity were recruited. All banks indicated that they had mechanisms for detecting incidences of integrity failure (negligence or willful blindness). In light of the foregoing, the variable was rated **very high** with a score of **0.8**.

#### **(viii) AML Knowledge of Staff in Securities**

The assessment revealed that the majority of staff in securities firms have the required AML knowledge. Most of them have designed appropriate AML programs and AML training programs which are undertaken annually with some institutions holding them semi-annually. SEC in collaboration with the FIC has also conducted training for the sector. Members of staff are aware of AML compliance, reporting procedures and obligations, and they also understand the legal consequences of AML compliance breaches. In light of the above, the variable was rated **medium high** with a score of **0.6**.

#### **(a) Brokers**

The assessment revealed that Brokerage firms conducted AML training programs continuously with various regulators, in line with the regulatory requirement of the SEC AML Directives and FIC Act. The AML knowledge is relatively high. There is, however, a need to ensure that training is done for all key staff, including those in the branch offices. In light of the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(b) Other Dealers**

With regard to other dealers, the assessment established that internal AML training programs were conducted on an annual basis for most of the dealers with one stating that this was conducted when on-boarding staff. Further, discussions held with some of the staff revealed that they had average knowledge of AML. In light of the foregoing, the variable was rated **medium low** with a score of **0.4**.

### **(c) Investment Advisors**

The assessment revealed that most of the Investment Advisors (IAs) conducted AML training for staff either annually or semi-annually. It was further revealed that members of staff in compliance were knowledgeable about AML/CFT/CPF compliance, reporting procedures, obligations and the legal consequences of AML compliance breaches. In light of the aforementioned, the variable was rated **medium high** with a score of **0.6**.

### **(d) Fund Managers**

The assessment revealed that Fund Managers conducted AML training programs annually in accordance with the SEC AML Directives. Further, Fund Managers indicated that they had a dedicated compliance function to deal with AML matters in their firms. The assessment established that there was a need for targeted AML training for employees, especially when onboarding. Generally, staff were knowledgeable about AML/CFT/CPF compliance, reporting procedures and obligations as well as the legal consequences of non-compliance. In light of the foregoing, the rating assigned to the control variable was **medium high** with a score of **0.6**.

### **(e) Securities Exchanges**

The assessment revealed that the securities exchange conducted annual AML training programs in line with the SEC AML Directives. Generally, staff of the securities exchange were knowledgeable about AML/CFT/CPF compliance, reporting procedures, obligations and the legal consequences of non-compliance. In light of the foregoing, the rating assigned to the variable was **high** with a score of **0.7**.

### **(f) Banks (Treasury)**

The assessment revealed that AML inductions were conducted as well as periodical training undertaken to enhance staff knowledge. Further, AML training programmes were conducted on AML Laws, policies and procedures on an annual and in some instances semiannual basis. The mode of training included classroom and online training arrangements. Considering the aforesaid assessment, this variable was rated **very high** with a score of **0.8**.

### **(ix) Effectiveness of Compliance Function (Organisations)**

The variable assessed whether institutions operating in the securities sector have an effective compliance function that is comprehensive, risk-based and well resourced.

Section 23 of the FIC Act requires the securities firms to establish a compliance function. The assessment revealed that the majority of securities firms have established a compliance function as per the FIC Act requirement. Further, it was established that larger securities firms were well resourced compared to other players in the sector. In this regard, the variable was rated **medium** with a score of **0.5**.

**(a) Brokers**

The assessment revealed that all brokers have compliance officers despite them not being at senior management level. This was prevalent in smaller firms due to their size and nature. Further, most brokers did not undertake AML audits in the assessment period. During the period under review, enforcement action was undertaken on one broker for an AML breach. In light of the foregoing, the variable was assessed to be **medium low** with a score of **0.4**.

**(b) Other Dealers**

With regard to other dealers, the assessment revealed that most respondents only had a member of staff performing compliance functions as an additional duty. However, the officer was not at management level. Although most of the respondents indicated that they had internal AML programs, the assessment revealed that the other dealers cluster did not undertake AML audits in the period under review and there were no AML breaches. This was also largely due to the nature and size of the entities. In light of the foregoing, the variable was rated **medium low** with a score of **0.4**.

**(c) Investment Advisors**

The assessment established that most firms have designated a compliance officer. Most of these compliance officers were not at management level. Further, it was established that most of the Investment Advisors did not undertake internal AML audits. In the period under review, there were no AML breaches recorded, and therefore, there were no enforcement actions undertaken. In light of the above, the variable was rated **medium low** with a score of **0.4**.

**(d) Fund Managers**

The assessment of this cluster revealed that all fund managers did have a designated compliance officer albeit not at senior management level and compliance functions were not adequately resourced. However, it was established that most of the fund managers had developed compliance

programmes though the programmes required some enhancement. During the period under review, no cases of AML breaches were recorded, and no independent audit reviews were conducted. In light of the aforementioned, the variable was rated **medium** with a score of **0.5**.

**(e) Securities Exchange**

The assessment revealed that the securities exchange had established a compliance function which is adequately resourced with the compliance officer designated at senior management level. The securities exchange had internal compliance programmes on AML and undertook AML audits. During the period under review, there were no AML breaches were recorded for the securities exchange. In light of the aforementioned, the variable was rated **medium high** with a score of **0.6**.

**(f) Banks (Treasury)**

The assessment revealed that Banks had designated compliance officers in line with the FIC Act. They have further designated officers as compliance champions at branch levels. The compliance officers designated were at management level. The compliance functions in various banks were well resourced and took periodic AML audits. In light of the aforementioned, the variable was rated **very high** with a score of **0.8**.

**(x) Effectiveness of Suspicious Activity Monitoring and Reporting**

The variable assesses whether securities firms have effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures. In the period under review, there were less than 10 STRs reported to the FIC. This variable was assessed to be **medium low** with a score of **0.4**.

**(a) Brokers**

Brokers were found to have put in place some information systems for record keeping, monitoring, and STR reporting except for 3 brokers who stated that they did not have the systems in place. However, during the period under review, no STRs were reported. In light of the aforementioned, the variable was rated **low** with a score of **0.3**.

**(b) Other Dealers**

The assessment revealed that the majority of dealers had not developed and implemented systems for monitoring and STR reporting. The assessment

established that those that had developed these systems, the systems were not effective. All dealers had put in place record keeping systems. However, there was a need to improve the implementation and STR reporting requirements. In light of the aforementioned, the variable was rated **low** with a score of **0.3**.

**(c) Investment Advisors**

The assessment revealed that Investment Advisors had knowledge and had put in place manual systems for record keeping, monitoring and STR reporting despite these not being sufficient in some cases. No STRs were reported during the period under review. In light of the above, the variable was rated **low** with a score of **0.3**.

**(d) Fund Managers**

Fund managers had both manual and automated systems for record keeping, monitoring, and STR reporting. The assessment revealed that some fund managers understood their obligations for reporting STRs. During the period under review, only one fund manager submitted 1 (one) STR. In light of the aforementioned, the variable was rated **low** with a score of **0.3**.

**(e) Securities Exchange**

The Securities exchange has developed and implemented systems for record keeping, monitoring and STR reporting. In terms of understanding their obligations for reporting STRs, it was noted that staff are taken through a process to enhance their awareness of these reporting requirements. However, the assessment revealed that the securities exchange has not filed any STR during the period under review. In light of the aforementioned, the variable was rated **medium low** with a score of **0.4**.

**(f) Banks (Treasury)**

The assessment revealed that banks had sufficient systems for record keeping, monitoring, and STR reporting. In the period under review, over 90% of STRs filed to the FIC came from banks. The assessment further revealed that banks have developed AML/CFT/CPF programs and implemented training to enhance understanding of suspicious transaction reporting obligations. In light of the aforementioned, the variable was rated **very high** with a score of **0.8**.

**(xi) Availability and access to beneficial ownership information**

The variable was assessed under the Banking Sector as **medium high** with a score

of **0.6**.

**(xii) Availability of reliable identification Infrastructure**

The variable was assessed under the Banking Sector as medium with a score of **0.5**.

**(xiii) Availability of independent information sources**

The variable was assessed under the Banking Sector as **high** with a score of **0.7**.

#### **4.6 Inherent Vulnerability**

An assessment of the inherent vulnerability of the securities sector was undertaken and the following variables were analysed:

- (i) The total value/size of the institution type;
- (ii) The complexity and diversity of the portfolio;
- (iii) The client base profile;
- (iv) The existence of investment/deposit feature;
- (v) The liquidity of the portfolio;
- (vi) The frequency of international transactions; and
- (vii) Other vulnerable factors.

An analysis of each of these variables for the securities sector entities was conducted and the results of the assessment indicated each as follows:

**(a) Brokers**

Total turnover recorded on the exchange for equities traded through the facilitation of the brokers stood at ZMW266 million for 2019, ZMW4.4 billion for 2023 and ZMW1.1 billion for 2024 which the assessment considered medium risk of abuse to ML. The complexity and diversity of the portfolio was rated low because brokers predominantly facilitate investments in equity and debt instruments which were not complex. The client-based profile comprises of institutional and retail investors both foreign and domestic.

In most cases, foreign investors participate through nominee accounts which may mask the identity of the investors and this service tends to be offered through a

complex set of global, regional and in country sub-custodial agreements. This provides an opportunity to invest large amounts of money in equity and debt instruments through Brokers. This variable was assessed as **medium** with a score of **0.5**.

The assessment found that the liquidity of stockbrokers' portfolios was generally low. This is largely attributed to the fact that a significant portion of listed equities on the market are illiquid, with only a few actively traded stocks. The limited trading activity reduces brokers' ability to quickly convert holdings into cash without affecting market prices, thereby constraining their operational flexibility and overall market efficiency.

The frequency of international transactions was rated high due to the high turnover averaging 80% of total turnover generated from foreign investors. With innovation having significantly evolved, non-face-to-face account opening and transacting was conducted in some cases e.g., through the LuSE trading application. The assessment also noted that there had been typologies on the abuse of brokers for ML purposes.

Brokers are inherently susceptible to being used as enablers in offences such as market manipulation, insider trading, and securities fraud, all of which constitute violations under the Securities Act.

The assessment further revealed that some brokers faced some difficulty tracing transaction records due to limited information management systems. The introduction of the LuSE Mobile App has enabled investors to select brokers and execute trades without prior submission of Know Your Customer (KYC) information to the brokers as there is reliance on the KYC undertaken by the mobile network operators (MNO) at the point of opening an account with the MNO. This has potentially increased the ease of market participation but also heightened potential ML risks. This challenge is compounded by the fact that many brokers have not invested in electronic filing or record management systems, making data retrieval and verification more difficult.

It was, however, noted that brokers do not handle cash directly, as clients are required to deposit funds into the firms designated bank accounts—a measure that mitigates some level of financial risk. Taking these factors into account, the overall inherent vulnerability for brokers was assessed as **medium**, with a score of

## 0.5.

### (b) Other Dealers

Other dealers are dealers that fall outside the category of bank dealers, stockbrokers and fund managers. The Securities Act requires that Dealers continuously maintain a threshold capital adequacy level which assesses the value/size of the institution, and this was the parameter that was used to assess the entities in the other dealers' cluster. The size of this cluster was rated low. The complexity and diversity of the portfolio was rated low because the securities sector products offered on the market by other dealers were predominantly generic viz-a-viz equity and debt instruments which were not complex in nature. Client base profile was rated medium because it was probable that dealers would deal with high-net-worth individuals and PIPs investing large amounts of funds in the said instruments. Further, the Securities Act permits the collection of funds by dealers through deposits/payments by investors for purposes of onward investing.

The assessment further revealed that other dealers found it difficult or time consuming to trace transaction records because most of the smaller dealers do not have proper information management systems. Other dealers do not usually handle cash as they request clients to deposit money in the firm's account and only provide deposit slips as proof of payment. In view of the foregoing, the overall inherent vulnerability for the other dealers was assessed to be **medium low** with **0.37** rating.

### (c) Investment Advisors

The total value/size of the investment advisors' sub sector was assessed as low risk. The number of licensed investments advisers at the end of 2024 was recorded as 22. This is comprised of 13 corporate investment advisers and 9 individual investment advisers. Almost all licensed corporate investment advisers promoted services on behalf of international financial institutions as well as local financial institutions. The complexity and diversity of the portfolio and the existence of investment or deposit features were rated medium low because the services promoted were mostly hybrid in nature with a few having characteristics of insurance and investment. The client base profile was rated high because investment advisors' services were usually targeted at PIPs and high net worth

individuals.

The liquidity of the portfolio was rated low as services offered by investment advisors allowed for a cooling-off period after which liquidation was not allowed. The frequency of international transactions was rated medium high as majority of the services were offered on behalf of international institutions. With regard to anonymous or omnibus use of the product, a rating of low was assigned because, despite investment Advisors having the option to board clients on a face-to-face basis or other, the Securities Act did not allow the opening of anonymous accounts.

ML typologies on the abuse of investment advisors existed, for example, the Typologies Report on Money Laundering through the Securities Market in the ESAAMLG Region issued in September 2015. The use of investment advisers in securities fraud was rated as existing but limited because the services offered may not be properly registered/authorised in the countries of origin. Most of the investment advisors, especially individual investment, used manual filing systems which increased the risk of documents getting lost. Lastly, the level of cash activity associated with the investment advisors was rated low because the Securities Act did not allow them to hold clients' money. Based on the foregoing, the inherent vulnerability for the Investment Advisers was rated **medium** with a score of **0.56**.

#### **(d) Fund Managers**

The total funds under management in 2024 were about ZMW 3 billion and was considered to have medium risk of abuse to ML. With regard to complexity and diversity of the portfolio, it was noteworthy that funds were predominantly invested in equity, debt instruments and term deposits which were not complex. However, during the period under review, it was established that some fund managers offered unauthorized products to investors which included some PIPs and high net worth individuals and thus rated medium low. The client base profile comprises of institutional investors (mostly pension funds that normally have investment guidelines in place) and retail investors (foreign and local). The client base further showed that there had been some incidents of PIPs and high net worth individuals placing their money in collective investment schemes operated by Fund Managers. Despite this, the client base was rated low. As regards the existence of investment/deposit feature, Fund Managers, by their nature, were an investment vehicle and the availability of an investment or deposit feature by

investors was prominent.

Further, the liquidity of the portfolio was medium high due to the fact that it was easy to get back one's investment once requested. However, most fund managers have a minimum investment period. The frequency of international transactions showed that there was little but steady participation in foreign investments with the funds in the market during the period under review warranting a rating of low risk.

With regard to anonymous/omnibus use of the products, the assessment established that there was remote opening of accounts by Fund Managers during the period under review. The adoption of innovative (FINTECH) methods of reaching investors has driven significant growth in the number of investors in this sector to represent over 90% of total investors in the Securities Sector. This has largely been driven by one Fund manager that uses mobile money platforms to on-board clients. The on-boarding of investors using the mobile money platform is entirely dependent on the CDD undertaken by MNOs. However, the assessment revealed that there were no anonymous accounts opened during the period under review. Regarding the existence of ML typologies on the abuse of securities institution type, the assessment revealed that there had been typologies conducted on the exploitation of Fund Managers to ML. Generally, fund managers do not handle cash, as investors are expected to invest through the fund managers designated bank account. The inherent vulnerability of Fund Managers was rated **medium** with a score of **0.5**.

#### **(e) Banks**

GRZ bonds trade on the secondary market once issued on the primary market by Bank of Zambia. The value/size of the corporate and GRZ secondary bond market capitalization stood at ZMW184.8 billion as of 31 December 2024. GRZ secondary bond market trades stood at a volume of 75.2 billion with turnover of ZMW58.6 billion as of December 2024 translating into high transaction sizes. In addition, Banks offered specific products to high-net-worth individuals, corporate institutional investors, foreign investors and PIPs, of which some of these individuals preferred to invest in bonds. With regard to liquidity of the portfolio of the institution type, the turnover ratio was used to measure how liquid the market is. Therefore, the turnover ratio for trading of GRZ bonds in the secondary market stood at 52% representing relative liquidity as government bonds tend to be liquid. However,

illiquidity is prevalent for corporate bond trading, which also resulted in difficulty for one to get back their investment in a corporate bond.

Regarding omnibus use of the product in the securities institution type, Banks provide this service to existing clients that hold bank accounts with them hence having an already established relationship. It was worth noting that Banks had invested in electronic systems of filing records and, as a result, it was easy to trace documents. Further, there was no cash handling by the treasury department of commercial Banks as securities transactions were completed electronically through underlying bank accounts. The inherent vulnerability for banks (Treasury) was rated **medium low** with a score of **0.33**.

#### **(f) Securities Exchanges**

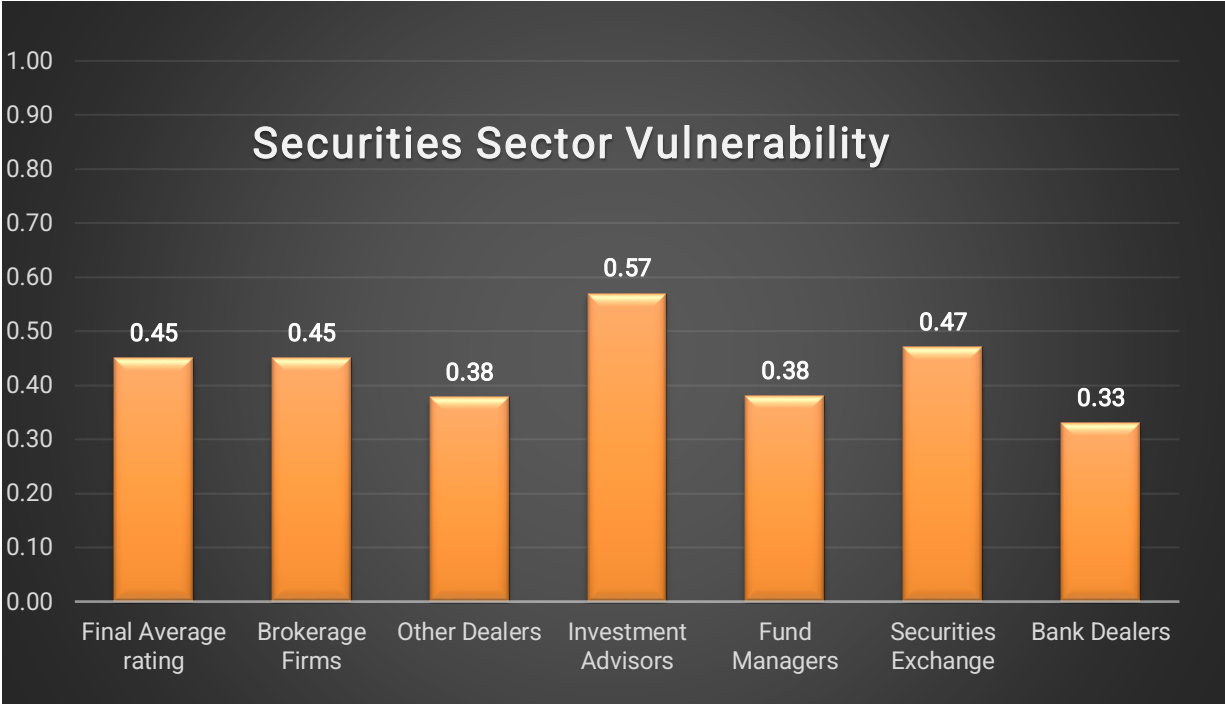
The equities market in Zambia recorded a growth of 281.96% from 2019 to 2024. The market capitalization closed at ZMW 216.1 billion in the year ending 31<sup>st</sup> December 2024. A total trade volume of 167,455,320 was recorded for 2024 with a turnover of ZMW 1.1 billion translating into 31,855 trades. This growth recorded over the period shows growing participation in the equities market and its attractiveness for investment. Consequently, securities exchange was vulnerable to ML and was therefore rated as medium high. The complexity and diversity of the portfolio was rated medium low because the types of securities traded on the Securities Exchange were largely equity and debt instruments which were not complex or diverse. Securities Exchanges screened the trading activities of capital market operators through a surveillance system. The client base profile was rated medium with volumes executed mostly from foreign retailers and a combination of local institutional and retail investors. Liquidity was rated medium low as the assessment revealed that the liquidity for securities exchanges in comparison to other institution types within the securities sector was low due to high illiquidity of the equities market. Suffice to mention, strides are being undertaken by the sector to further develop and improve liquidity in the market. The frequency of international transactions was rated medium low as participation on the Securities Exchanges comprised of both foreign and local investments for listed local equity and debt instruments in the capital market during the review period. The use of omnibus accounts was available as Securities Exchanges had omnibus accounts which were held in the Central Shares depository (CSD) of the Exchange. There was existence of typologies on the abuse of Securities Exchanges for ML. The assessment revealed that individuals who worked at the Securities Exchanges could trade on the same platform which created room for manipulation, insider trading or securities fraud and as such this factor was existent although limited.

Tracing transaction records were rated easy to trace as Securities Exchanges used an electronic CSD for record keeping. The assessment revealed that there was low cash activity due to the introduction of trading using an application. However, this was done through MNOs to a designated bank account. The larger majority of trades had no cash activity involved as the exchange did not get involved in funds movement as this was done at commercial and central bank level. The inherent vulnerability for the securities exchange was rated **medium** with a score of **0.5**.

#### 4.7 Institutional Inherent Vulnerability

The overall inherent vulnerability of the securities sector is **0.45 (Medium)**. The highest inherent vulnerability is on the Investment Advisors **0.57 (Medium)** and the lowest being the Banks at **0.33 (Medium low)**. This is highlighted in **Figure 9** below:

**Figure 9: Securities Sector Vulnerability**



**Figure 10: Ranking of Priority Areas (Securities)**

PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML Legal Framework	
Effectiveness of Supervision Procedures and Practices	
Availability and Enforcement of Administrative Sanctions	
Availability and Enforcement of Criminal Sanctions	
Availability and Effectiveness of Entry Controls	
Integrity of Staff in Securities Firms	5
AML Knowledge of Staff in Securities Firms	2
Effectiveness of Compliance Function (Organization)	3
Effectiveness of Suspicious Activity Monitoring and Reporting	3
Level of Market Pressure to Meet AML Standards	1
Availability and Access to Beneficial Ownership Information	
Availability of Reliable Identification Infrastructure	6
Availability of Independent Information Sources	

## 5.0 CHAPTER FIVE: INSURANCE SECTOR MONEY LAUNDERING RISK

### 5.1 Objectives

The main objectives of the Insurance Sector Vulnerability assessment were to:

- (i) Identify the overall vulnerability of the insurance sector;
- (ii) Identify insurance products with high vulnerability; and
- (iii) Prioritise action plans that will strengthen AML controls in the insurance sector.

### 5.2 Money Laundering Risk Level of the Insurance Sector

The money laundering risk level of the Insurance sector was assessed as **medium low** with an **Overall Vulnerability score of 0.35**. This was as a result of the vulnerability and threat of ML for the insurance sector being assessed as **medium low**.

### 5.3 Overview of the Insurance Sector

The insurance sector comprises reinsurance companies, general insurance companies (non-life insurers), long-term insurance companies (life insurers), microinsurance businesses, and intermediaries such as underwriting agents, reinsurance brokers, insurance brokers, insurance agents, claims agents, risk surveyors, motor assessors, and loss adjusters.

Table 22 below lists the number of participants in each category of insurance business from 2019 to 2024:

**Table 22: Distribution of Insurance Entities as at 31<sup>st</sup> December 2024**

	CATEGORY	2024	2023	2022	2021	2020	2019
1	Reinsurance	5	5	4	4	3	3
2	Long Term (Life)	10	11	11	10	10	10
3	General (Non-Life)	23	23	23	20	21	21
4	Insurance Brokers	76	78	73	61	54	38
5	Reinsurance brokers	14	11	6	5	5	3
6	Underwriting Agents	4	2	-	-	-	-
7	Insurance Agents	438	415	244	261	263	266

<b>8</b>	Risk Surveyors	2	1	1	2	3	2
<b>9</b>	Loss Adjusters	6	7	6	7	7	3
<b>10</b>	Assessors	4	7	7	8	6	6
<b>11</b>	Claims agents	4	7	7	7	6	3
	<b>TOTAL</b>	<b>586</b>	<b>567</b>	<b>382</b>	<b>385</b>	<b>378</b>	<b>355</b>

The insurance sector's total assets increased from ZMW5.67 billion recorded in 2019 to ZMW9.86 billion at the end of 2023, representing a growth rate of 74%. General Insurance (Non-life) accounted for 44.4 % of total assets in the insurance sector while the long-term (life) accounted for 42.3% and Reinsurance accounted for 13.3% as at 31<sup>st</sup> December 2023.

Table 23 below highlights the growth trend of total assets and liabilities in the insurance sector from 2019 to 2023.

**Table 23: Growth of Total Assets in the Insurance Sector**

Year	2019 (ZMW'000)	2020 (ZMW'000)	2021 (ZMW'000)	2022 (ZMW'000)	2023 (ZMW'000)
<b>General</b>	3,232,327	3,232,327	2,892,249	4,033,594	4,376,543
<b>Long-Term</b>	2,292,072	2,539,974	2,948,592	3,395,768	4,167,117
<b>Reinsurance</b>	151,085	224,780	343,011	517,758	1,313,540
<b>Total</b>	<b>5,675,486</b>	<b>5,997,081</b>	<b>6,183,853</b>	<b>7,947,121</b>	<b>9,857,201</b>
<b>Growth Rate</b>	<b>58%</b>	<b>6%</b>	<b>3%</b>	<b>29%</b>	<b>24%</b>

The insurance sector recorded a Gross Written Premium (GWP) growth rate of **104 %** in the period under review, from **ZMW 3.8 billion** in 2019 to **ZMW 7.8 billion** as at 31<sup>st</sup> December 2023. The sector's annual average growth rate during the period under review stood at 18.2%.

Despite the growth recorded in the sector, the penetration ratio and insurance uptake remained relatively low, estimated at 1.3% of GDP and 6.3 % of the adult population respectively. The performance of the insurance sector against the country's GDP indicator during the period under review is shown in table 24 below:

**Table 24: Insurance sector Growth Trends - 2019 to 2023**

Year	2019 ZMW'000	2020 ZMW'000	2021 ZMW'000	2022 ZMW'000	2023 ZMW'000
<b>Combined GWP</b>	3,815,075	4,672,693	5,343,896	6,032,887	7,811,340
<b>General</b>	2,292,072	2,973,682	3,513,110	3,866,783	4,996,292
<b>Long-Term</b>	1,523,002	1,699,011	1,830,785	2,166,104	2,815,056
<b>Percentage Growth</b>	18.37%	22.48%	14.36%	12.89%	23.72%
<b>GWP/GDP Ratio</b>	1.35%	1.37%	1.21%	1.20%	1.37%

#### 5.4 Supervision and Regulation

The Pension and Insurance Sectors are supervised by the Pensions and Insurance Authority (PIA) established under the Pensions Scheme Regulation Act, No. 28 of 1996 (PSRA). The PIA's functions are highlighted under Section 5 of the PSRA. The PIA administers the PSRA and Insurance Act, No. 38 of 2021 in its mandate to regulate and supervise the pensions and insurance sectors. The PIA is designated, under Section 2 of the FIC Act, as a Supervisory Authority for AML/CFT/CPF purposes as well as ensuring compliance by regulated and reporting entities under the pensions and insurance sector, of their obligations under the FIC Act.

This assessment considered long-term (Life) and General (Non-Life) Insurance entities which offer various services and products.

#### 5.5 Money Laundering Vulnerability Level of the Insurance Sector

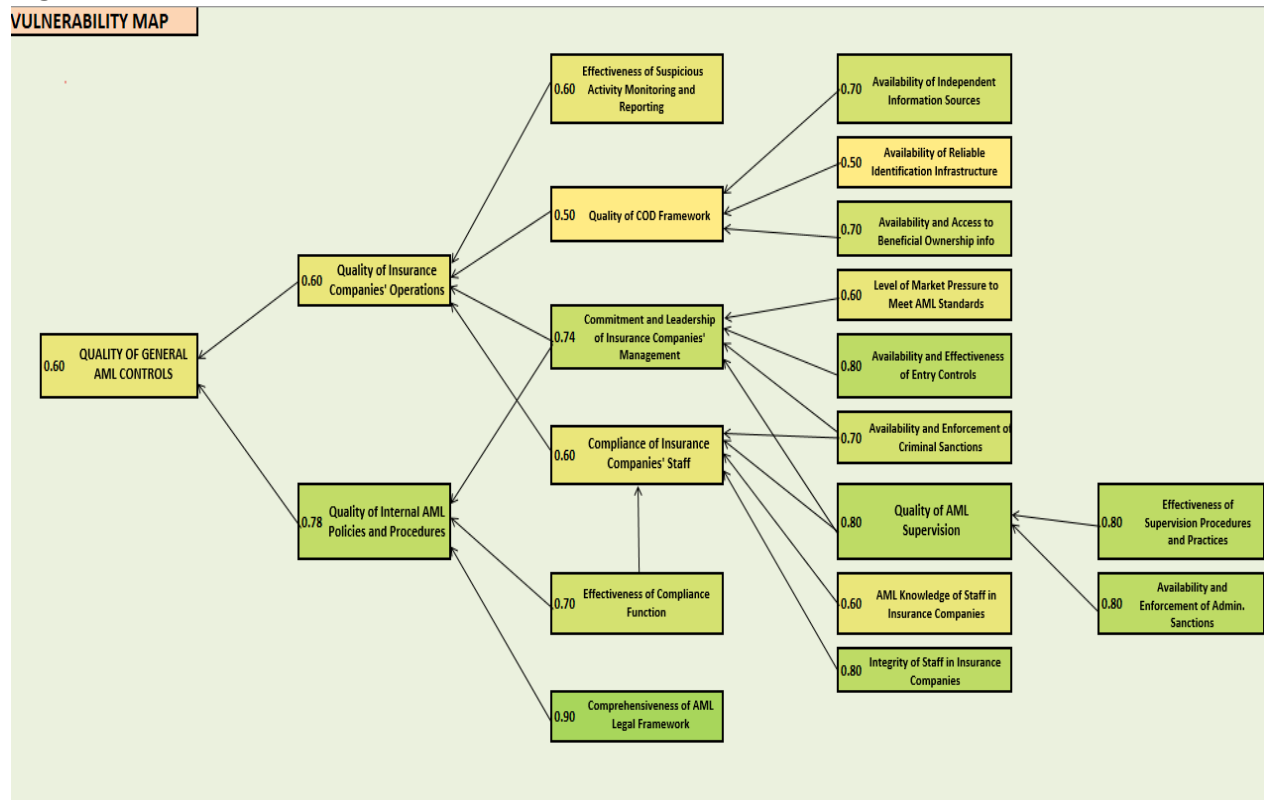
The overall Insurance sector vulnerability was assessed using the general AML control variables affecting the entire insurance sector and specific product/service input variables offered by insurers. In assessing the AML general controls, 13 variables were considered as outlined below.

The overall Insurance sector vulnerability to ML was assessed as **medium low** with a score of **0.35** on account of the vulnerability controls in relation to quality of insurance sector operations being rated as **medium low** with a score of **0.6**, quality of internal AML policies and procedures rated as **medium-high** with a score of **0.78**, commitment and leadership of insurance companies management rated as **medium-high** with a score of **0.74**, **quality of CDD framework** rated as **medium**

with a score of **0.5** and the quality of AML supervision rated as **high** with a score of **0.8**.

Figure 11 below highlights the overall vulnerability for the sector. Further, the figure highlights the intermediate variables:

**Figure 11: Vulnerability of the Insurance Sector**



## 5.6 General Anti Money Laundering Control Variables Assessment

The general AML controls were assessed using the following variables:

### (i) Comprehensiveness of AML Legal Framework

This variable assesses whether a country has comprehensive laws and regulations regarding AML preventive measures and AML supervision in the insurance sector.

The assessment revealed that there are existing laws aimed at ensuring compliance by the Sector. The following are the key pieces of legislation that were examined:

- (a) the Financial Intelligence Centre Act No. 46 of 2010;
- (b) the Insurance Act No. 38 of 2021;
- (c) the Prohibition and Prevention of Money Laundering Act, No. 14 of 2001;
- (d) the Public Interest Disclosure (Protection of Whistleblowers) Act, No. 4 of 2010;
- (e) the Penal Code Act, Cap. 87 of the Laws of Zambia;
- (f) the Anti-Terrorism and Non-Proliferation Act No. 6 of 2018; and
- (g) the Forfeiture of Proceeds of Crime Act, No. 19 of 2010.

In addition, the Insurance Act has provided the following:

- (a) Group-wide supervision of the insurance sector as provided in Sections 118 and 120, in line with Insurance Core Principles No. 23;
- (b) Group-wide supervision of the insurance sector as provided in Sections 118 and 120, in line with Insurance Core Principles No. 23;
- (c) Promulgation of Anti-Money Laundering countering terrorism and proliferation financing and other predicate offences statutory instruments in the Insurance sector – Section 179;
- (d) Strengthened entry controls by providing for promulgation of an SI to deal with the criteria to be followed to determine fit and proper persons for shareholders, directors and senior officials in the sector – Section 179; and
- (e) Enhanced due diligence by clearly identifying the beneficiary of a life policy and carrying out customer due diligence – Section 32.

In view of the above, the variable was rated as **Close to Excellent** with a score of **0.9**.

## **(ii) Effectiveness of Supervision Procedures and Practices**

The variable assesses the effectiveness of AML supervisory procedures and practices for the insurance sector.

Section 2 of the FIC Act, classifies or defines the Pensions and Insurance Authority (PIA) as a supervisory authority for purposes of AML/CFT/CPF and mandates it, under Section 36, to monitor and ensure compliance by reporting entities to the Act.

The PIA carries out supervisory activities using a comprehensive risk-based supervision framework. The framework provides clear supervisory procedures and processes that are aligned to the FIC Act, Insurance Act and international standards. It was noted that the PIA has a dedicated unit comprising seven (7) members of staff who are responsible for conducting AML/CFT/CPF supervision. The members of staff have undergone AML/CFT/CPF training and are sufficiently resourced (annual dedicated budget) to carry out supervisory activities. The frequency and intensity of onsite and off-site supervisory activities are informed by the residual risks inherent in the reporting entities as outlined in the PIA risk based supervisory framework.

During the period under review, the PIA conducted a total of 14 on-site inspections of insurers. Further, 20 off-site reviews of insurers and intermediaries were conducted and produced 4 consolidated insurance annual risk-based sector assessment reports. The insurance sector reviews (offsite and onsite) were used to inform regulatory and policy developments in the sector.

Reporting entities indicated that the supervisory processes had a significant impact on management and staff of reporting entities resulting in improved compliance levels and resource allocations to combat ML and other financial crimes in the sector.

It was noted that the PIA exercises the ML supervisory powers in an effective and impartial manner. However, some reporting entities noted that the PIA needs to apply financial sanctions outlined in the FIC Act more often to deter non-compliance.

In view of the above, the variable was rated as **Very High** with a score of **0.8**.

### **(iii) Availability and Enforcement of Administrative Sanctions**

This variable assesses whether a country has a range of effective, proportionate, and dissuasive administrative sanctions applicable to natural or legal persons in cases of non-compliance with AML rules and regulations.

The FIC and Insurance Acts provide for administrative sanctions to be imposed on natural or legal persons that breach the AML/CFT/CPF provisions which are not criminal in nature.

Section 49C of the FIC Act provides the following administrative sanctions:

- (a) A caution not to repeat the conduct which led to the noncompliance of any of the provisions of the Act;
- (b) A reprimand;
- (c) A directive to take remedial action or to make specific arrangements;
- (d) The restriction or suspension of certain specified business activities;
- (e) Publication of a public notice of any prohibition or requirement imposed; and
- (f) A financial penalty not exceeding one million penalty units.

In addition to the above, the Insurance Act provides for supervisory actions which include administrative sanctions under Section 120 (2) as read with Section 176.

The assessment noted that sufficient administrative sanctions to positively influence management behavior are in place. However, reporting entities expressed a concern that the sanctions are not sufficiently enforced by the supervisory authority. The assessment noted that 37 of 50 reporting entities indicated that the administrative sanctions provided in the law are sufficient and dissuasive.

During the period under review, there was 1 Caution and 13 Directives issued.

In view of the above, the variable was rated as **very high** with a score of **0.8**.

#### **(iv) Availability and Enforcement of Criminal Sanctions**

This variable assesses whether a country has a range of effective, proportionate and dissuasive criminal sanctions which are applicable in cases of non-compliance with AML laws and regulations.

The assessment noted that Part IV of the FIC Act lists criminal sanctions in cases of non-compliance with AML/CFT/CPF obligations, such as;

- (a) Failure to comply with identification requirements, Section 42;
- (b) Failure to comply with identification requirements, Section 42;
- (c) Failure to maintain or provide access to records, Section 43;

- (d) Failure to fulfil due diligence obligations or maintain internal controls, Section 44;
- (e) Failure with regard to suspicious transaction or other reporting, Section 45;
- (f) False or misleading statements, Section 46;
- (g) Confidentiality violation, Section 47; and
- (h) Offences by body corporate or unincorporated body, Section 52.

The assessment noted other criminal sanctions in relation to ML/TF/PF and predicate offences provided in other legislation, such as:

- (a) The Prohibition and Prevention of Money Laundering Act No. 14 of 2010;
- (b) The Penal Code Chapter 87 of the laws of Zambia;
- (c) The Anti-Terrorism and Non-Proliferation Act, No. 6 of 2018;
- (d) The Anti-Corruption Act No. 3 of 2012; and
- (e) Forfeiture of Proceeds of Crime Act No. 19 of 2010.

The assessment revealed that 76% of persons working in the insurance industry regard the criminal sanctions regime as sufficiently dissuasive to positively influence individual behavior.

In view of the significant amendments and development of various criminal sanctions in the period under review, the variable was rated as **high** with a score of **0.7**.

#### **(v) Availability and Effectiveness of Entry Controls**

This variable assesses the availability and effectiveness of the entry controls in the insurance sector.

The Insurance Act has comprehensive provisions on registration and licensing of insurance companies. Entry controls are clearly outlined in the Insurance Act and the Insurance (General) Regulations, SI 105 of 2022. The assessment noted that the PIA has sufficient entry controls to prevent criminals and their associates from owning or controlling insurance companies.

Key provisions outlined under the Insurance Act No. 38 of 2021 and The Insurance (General) Regulations, SI, 2022 include the following;

- (a) Prohibition on carrying insurance business without a licence, Section 6;
- (b) Applications for carrying on insurance business, Section 10;
- (c) Senior management to meet fit and proper criteria, Section 54; and
- (d) Fit and proper test for significant shareholders, directors and senior management, Regulation 7, 13, 21 and 23.

The PIA has a clear and comprehensive framework for licensing entrants in the insurance sector, including a fit and proper test designed to prevent criminals or their associates from being granted licenses or having significant controlling interest in insurance companies. Material changes to existing insurance companies i.e. change in beneficial ownership or senior management is subject to review and approval by the PIA.

The assessment noted that the PIA conducts independent checks with LEAs and Financial Sector Regulators (FSRs) to ensure that beneficial owners, directors and senior officers are fit and proper in line with the above provisions. The PIA is adequately resourced with skilled personnel to carry out entry assessments. The staff have adequate understanding of the ML/TF/PF risks in the sector gained by conducting regular sectoral risk assessments. Insurance companies are required to appoint compliance officers and establish adequate AML controls in line with the provisions of the FIC Act and licensing requirements.

The Variable is rated as **very high** with a score of **0.8**.

#### **(vi) Integrity of Staff in Insurance Companies**

This variable assesses whether staff in insurance companies act with integrity. This means that staff do not act in a willfully blind manner or collude with criminals or act corruptly.

Improvements were noted regarding the integrity of staff in insurance companies during the assessment period compared to the outcome of the 2016 assessment. It was noted that a significant number of insurance companies regarded their staff as being secure from corruption by criminal elements. Part 3 of the Insurance (General) Regulations, SI 105 of 2022 outlines the fit and proper criteria for senior management staff and for those holding key positions such as head underwriting and claims, chief operating officers and other senior officials. It was noted that 88% of insurance companies have been conducting reference checks from

previous employers for potential staff, while 60% obtained the Zambia Police Clearance Certificate. It was noted that 4 of 50 insurance companies, accounting for 8% of respondents, initiated disciplinary action against staff for non-compliance with AML/CFT/CPF policies and procedures. It was noted that 75% of insurance companies had whistle blower protection policies for staff against any negative consequences resulting from reporting suspicious transactions or any actions assisting complying with AML obligations.

In view of the above, the variable was rated as **very high** with a score of **0.8**.

### **(vii) AML Knowledge of Staff in Insurance Companies**

This variable assesses how well the insurance companies' staff know and understand their AML duties and responsibilities.

The assessment revealed that 40% of reporting entities staff have undergone AML training. Although 74% of respondents' staff indicated that they have knowledge on AML/CFT/CPF matters, documentary evidence of the training materials could not be provided. Despite 60% of reporting entities indicating that they had documented ML training policies and procedures, significant deficiencies were noted across the sector with only 40% of staff indicating that they at least underwent regular ML annual training. The majority of staff did not receive updates on local or international ML typologies or other schemes.

The assessment noted that insurance companies affiliated to international groups had annual AML/CFT/CPF mandatory training programs for staff, while locally incorporated entities lacked comprehensive AML/CFT/CPF training programs. Staff in international affiliated insurance companies were regularly updated on domestic and international ML schemes and typologies. However, the assessment noted 80% of long-term insurers provided regular AML/CFT/CPF training to their staff.

Due to lack of proper compliance training manuals and guidelines, local entities continued to have low levels of AML/CFT/CPF knowledge while internationally affiliated companies have continued to train and track their staff on AML/CFT/CPF knowledge regularly. The assessment further noted significant AML/CFT/CPF knowledge gaps between staff at head offices (urban centers) and staff in other parts of the country.

In view of the above, the variable was rated as **medium high** with a score of **0.6**.

#### **(viii) Effectiveness of Compliance Function**

This variable assesses whether insurance companies have an effective compliance function that is comprehensive, risk-based, and well-resourced with an independent AML function.

Section 23 of the FIC Act, 2010, mandates reporting entities to designate ML/TF/PF compliance officers. The assessment revealed that 82 % of insurance companies had designated compliance officers in line with the requirement of the Act. It was further noted that all life insurers and general insurers had designated compliance officers as required by law.

It was observed that the designated compliance officers are independent, at a senior management level and adequately resourced to implement the compliance programme accordingly. The assessment revealed that 66% of insurers had comprehensive compliance programmes commensurate to ML risks. It was further noted that all long-term (Life) insurers had compliance programmes commensurate with the ML risks in the sector.

The assessment revealed that 48% of insurance companies had carried out independent audits to review the effectiveness and implementation of AML/CFT/CPF policies between 2022 and 2023 financial periods. It was further observed that 8% of insurance companies had carried out disciplinary action against their staff for non-compliance to AML policies and procedures.

The variable was rated as **high** with a score of **0.7**.

#### **(ix) Effectiveness of Suspicious Activity Monitoring and Reporting**

This variable assesses whether insurance companies have effective and appropriate systems for record keeping, monitoring, and STR reporting to support their AML policies and procedures.

The majority of insurance companies indicated that they were aware of the STR reporting obligations under the Act. The assessment revealed that the majority of locally owned insurance companies did not have documented STR processes,

procedures and IT systems to facilitate the monitoring of transactions of clients against their profiles. Further, the majority of staff in locally owned companies surveyed expressed ignorance of the existence of STR reporting procedures and were not aware of their reporting obligations. During the period under review the sector reported a total of 4 STRs.

The assessment revealed that the majority of insurance companies with significant exposure to ML risks had records that facilitated AML screening and monitoring. It was revealed that insurance companies with international affiliations, controlling over 80% of high risks products (investment linked products) conducted ongoing screening of Specially Designated Nationals (SDN), Designated persons or entities lists and PIP's using digital information systems. Further, adequate internal processes and procedures assisted staff to effectively identify complex and unusual transactions.

The variable was rated as **medium high** with a score of **0.6**.

#### **(x) Level of Market Pressure to Meet AML Standards**

This variable assesses whether market forces exert pressure on the managements of insurance companies to have an effective AML compliance function. It addresses the pressures that exist outside the country's legal and supervisory regimes.

The assessment revealed that there was low pressure on insurance companies' management to have an effective AML compliance function in the domestic market. It was however revealed that management in most entities in the insurance sector are sensitive to reputational risks that may arise from AML related reputation damage. It was observed that insurance companies have cross border business relationships with re-insurers who are domiciled outside the country. Majority of re-insurers are domiciled in jurisdictions with stringent AML regimes. Subsidiary insurance companies whose headquarters are domiciled in foreign jurisdictions with stringent AML regimes were subjected to increased pressure from their parent companies to comply with global standards.

The variable was rated **medium high** with a score of **0.6**.

**(xi) Availability and Access to Beneficial Ownership Information**

The variable was assessed under the Banking Sector as **medium high** with a score of **0.6**.

**(xii) Availability of reliable identification Infrastructure**

The variable was assessed under the Banking Sector as **medium** with a score of **0.5**.

**(xiii) Availability of independent information sources**

The variable was assessed under the Banking Sector as **high** with a score of **0.7**.

Table 25 below highlights a summary rating of General Input variables and highlights the priority ranking of key general input variables that must be addressed to mitigate deficiencies observed. The table also compares the assessment of variables between the 2016 and the 2023 NRA results.

**Table 25: General Input Variables – 2016 and 2024 NRA results**

SN	General Input Variables	2024 Rating	Priority Ranking	2016 Rating	Priority Ranking	Direction of Var.
1.	Comprehensiveness of AML Legal framework	0.9		0.4		↑
2.	Effectiveness of Sup. Procedures & Practices	0.8		0.4	2	↑
3.	Availability & Enforcement of Admin. Sanctions	0.8		0.5	6	↑
4.	Availability & Enforcement of Criminal Sanctions	0.7		0.6	8	↑
5.	Availability & Effectiveness of Entry Controls	0.8		0.6	10	↑
6.	Integrity of staff In Reporting Entities	0.8		0.5	7	↑
7.	AML Knowledge in Staff in Insurance entities	0.6	1	0.1	1	↑
8.	Effectiveness of Compliance Function	0.7		0.1	3	↑
9.	Effectiveness of Suspicious Monitoring & Reporting	0.6	3	0.1	4	↑
10.	Level of Market Pressure to meet AML standards	0.6	2	0.5	5	↑
11.	Availability & Access to Beneficial Ownership Infor.	0.7		0.6	9	↑
12.	Availability of Reliable Identification infrastructure	0.5	3	0.4		↑
13.	Availability of Independent information sources	0.7		0.7		↔

## 5.7 Product Specific Money Laundering Vulnerabilities

This assessment was performed on fourteen (14) different product lines which are briefly discussed below.

### (i) Assessment of Long-Term (Life) Insurance products

#### (a) Annuity Policy

This product does not have a provision for cancellation. It was noted that the annuity policy with a single premium was predominate on the market - accounting for 99% of the policy due to the mandatory requirement for retirees to acquire an annuity with 50% of their accrued benefits at retirement. The product accounted for an average of **2%** of the total GWP generated in the insurance sector in the period under review. The product line has an investment type policy, but the level of cash activity is low. The use of agents and cross border use of the product does not exist. The client base profile of this product is mostly individuals who have reached retirement age.

Based on the above, the product vulnerability was assessed as **low** with a score of **0.20**.

#### (b) Life Assurance Policy

Life assurance policies are contracts primarily designed to financially protect the policyholder and it's *identified* third parties (who include the insured, the beneficiaries of the contract, and the beneficial owners) against the risk of an uncertain future event – such as death or critical illness.

The product accounted for an average of 11% of the total GWP generated in the insurance sector in the period under review. The use of agents in this product is high, however, the client base profile is dominated by Group life/corporates. The product does not have investment type feature and the level of cash activity is low. Further, this product is not available for cross border use.

In light of the foregoing, the product vulnerability was assessed as **medium low** with a score of **0.26**.

### **(c) Investment Linked Insurance Policy**

The product allows for multiple premium payments to be made. This product is usually set up as a regular savings plan and at the end of a set period a lump sum is paid to the insured. As at 31<sup>st</sup> December 2023, the assessment noted that five (5) of ten (10) long term insurers offered investment-linked products, generating an estimated 6.2 % of total market GWP. The product is predominantly distributed by direct sales agents of insurers – hence the use of agents is rated as high. The assessment noted that 216,791 investment linked policies were issued by five (5) long term insurers as at 30 September 2024.

It was noted that more than 98% of the risk exposure (Investment-linked products) were attributed to policies with annual premium of less than USD 1,000. The majority of policyholders are civil servants who contribute less than ZMW 3,500 in annual premium deducted from the government payroll.

The assessment noted that over 97% of investment linked premium are settled through the financial system (banking sector or payroll deductions). The level of cash activity is very low. The product was not available for cross border use. Anonymous/Omnibus use of the product is not allowed. Non-face-to-face use of the product is not available. Use of the product for insurance fraud exists but is limited (mostly relates to erroneous enrollments by agents). Existence of ML typologies on abuse of the product exists. The transaction records for the product are easy to trace. Availability of product specific AML controls exist but to a limited extent in insurers offering the product line.

In light of the foregoing, the product vulnerability was assessed as **medium** with a score of **0.41**.

### **(d) Disability Policy**

Disability product line accounted for less than 1% of total GWP in the period under review. This product has no investment type feature and the use of agents is low. However, the client base profile of this product is mainly corporates. It has a low level of cash activity and it is not available for cross border use. The product does not have an anonymous/omnibus use feature. It is on the basis of the foregoing that the products vulnerability was assessed **low** with a score of **0.17**.

**(e) Health Insurance policy**

This product allows for medical cover to be purchased for employees by their employer through single premium payment. During the period under review, the average premium value of this product line was 15% of the overall GWP of the industry. The use of agents for this product is generally low. The client base profile is rated as very low risk as it is mostly consumed by corporates. Further, the product does not have an investment type feature, and the level of cash activity is nonexistent as all transactions are done through the formal banking system. The product does not provide for cross border and non-face to face use. It is on the basis of the foregoing that the product's vulnerability was assessed as **low** with a score of **0.20**.

**(f) Other Long-term Policies**

Other long-term (life) insurance product lines not included above such as funeral cover, hospital cash plans and other miscellaneous long-term products accounted for a combined average of 1.3% of GWP.

Use of agents both at on-boarding or payout stage is rated as low on all the products lines in the miscellaneous long-term category. The products have no investment component reducing the vulnerability of the products to ML risks. Typologies on the abuse of the products do not exist on the market, although it was noted insurance fraud does exist to a limited extent. Generally, all the products are simple in nature and payouts are pre-agreed and disclosed on commencement. Based on the foregoing, the product vulnerability was rated as **low** with a score of **0.19**.

**(ii) Assessment of General (Non-Life) Insurance products**

**(a) Property Insurance**

Property insurance primarily covers tangible assets - usually with high transaction values and may potentially involve complex ownership structures that may be susceptible to misuse. Property insurance accounted for an average of 25.6 % GWP generated in the market – the largest market share in the insurance sector. Usage of agents both at on-boarding or payout stage was noted hence rated as medium high. The product has no investment component reducing the

vulnerability of the product to ML risks. Typologies on the abuse of the product do not exist on the market. It was noted that the product line could be abused because of complex ownership structures that may obscure beneficial owners of the properties insured or the declaration of property values at onboarding stage. Properties suspected to be proceeds of crime by high risk PIPs are likely to be insured. Due to the high value nature of property insurance, the client base was rated as medium, though the majority of the clients accounting for the largest share placements are corporate entities. The level of cash transactions were noted to be low and availability of cross border use is nonexistent. Physical assessments/inspections required before placing cover does not allow non-face-to-face transactions. The level of cash activity is low. In view of the foregoing the product's vulnerability was rated as **medium** with a score of **0.37**.

#### **(b) Transport Insurance**

The transport product line accounted for an average of 1.7% of GWP in the period under review – hence the total value/size of product was rated as low. The product line predominately covers local or domestic transport of goods (within the territory of Zambia). Regular small premium payments aligned with the frequency of goods in transit are made by customers. Use of agents is low and the client base (mostly manufacturers) are rated as low risk. The level of cash activity was rated as low. Policyholders are clearly identifiable and have verifiable connections to shipment (easy to trace) – anonymous accounts are not allowed. Availability of the product line for cross border use was not observed. The product's vulnerability was rated as **low** with a score of **0.20**.

#### **(c) Motor Insurance**

The motor insurance line accounted for an average of 22.3% of GWP. The product line covers comprehensive motor insurance (for private and commercial), motor third party insurance (which is mandatory as provided under Section 88 of the Road Traffic Act), public service vehicle insurance and the regional COMESA yellow card. During the period under review, motor third party accounted for the largest number of policies issued, followed by comprehensive insurance and COMESA yellow card.

The motor product covers clients that include natural persons and complex corporate entities. Due to the mandatory nature of the product, most clients are

low risk. However, complexity of ownership (use of proxies) for high value motor vehicles was noted on the Zambian market, though generally anonymous accounts do not exist. The product has no investment component reducing the vulnerability of the product to ML risk. However, use of agents or third parties was observed to be high, mainly due to simplicity of underwriting.

Non-face-to-face use of the product through digital distribution channels exists, though to a limited extent. Generally, availability of cross border use exists to a limited extent under the COMESA yellow card (for motor vehicles transiting across the COMESA region). During the period under review, there was no cross-border use for other types of motor insurance policies. Use of cash was rated medium. The product line is exploited for fraudulent insurance claims.

In view of the foregoing, the product's vulnerability was rated as **medium** with a score of **0.39**.

#### **(d) Liability Insurance**

The liability product line accounted for an average of 1.5% of GWP recorded in the period under review. The product has no investment component, is short term in nature (renewed annually) and covers simple liability risks, such as employer liability, public liability. Payouts are fixed and clear from inception of the policy. Usage of agents both at on-boarding or payout stage is allowed. Reliance on agents was observed to be low and anonymity is not allowed. Typologies on the abuse of the product do not exist in the sector. In view of the above, the product's vulnerability was rated as **low** with a score of **0.17**.

#### **(e) Engineering Insurance**

The engineering product line accounted for an average of 3.9% of GWP recorded in the period under review. The product covers simple to complex engineering projects i.e. road construction to complex mining projects. Payouts are fixed and clear from inception of the policy. Usage of agents both at on-boarding or payout stage was allowed. Third parties from other countries providing services for huge mining and infrastructure projects were allowed. However, the availability of cross border use of the product (clients from other countries) was rated as low. The product has no investment component reducing the vulnerability of the product to ML risks. Typologies on the abuse of the product do not exist on the market. The assessment revealed that the

product line could be abused for “transfer pricing” or tax evasion by companies operating in the construction and mining sectors. Anonymous accounts do not exist. In view of the above, the product’s Vulnerability was rated as **medium low** with a score of **0.26**.

#### **(f) Accident Insurance**

Accident policies accounted for an average of 4.7% of GWP in the period under review and was mostly consumed by corporate entities. The product is not complex and offers limited opportunities for complex or obscure transactions or arrangements. Payouts are fixed and clear from inception of the policy. Usage of agents both at on-boarding or payout stage was noted to be insignificant. The product has no investment component and does not use cash, reducing the vulnerability of the product to ML risks. Typologies on the abuse of the product do not exist in the sector. Anonymous accounts do not exist. In view of the foregoing, the product’s Vulnerability was rated as **low** with score of **0.20**.

#### **(g) Guarantee Insurance**

A guarantee is any written undertaking issued by a guarantor in this case an insurance company to guarantee satisfactory execution of contractual obligations. Apart from a premium being payable this product may require collateral in the form of cash or assets to be deposited with the insurance company (conditional bond). Apart from a premium being payable upfront or installments, this product requires collateral in the form of cash or assets to be deposited with insurers.

The product does not have an investment type feature and cross border use is not available. The suppliers of services to Government are required to obtain guarantees from insurers or banks. The client base is rated as medium risk.

The level of cash usage for this product was assessed as medium. The use of agents is low due to high levels of complexity of the product and required controls. Anonymous use of the product is not allowed.

Based on the foregoing this product’s vulnerability was assessed as **medium low** with a score of **0.31**.

#### **(h) Other General Insurance product lines**

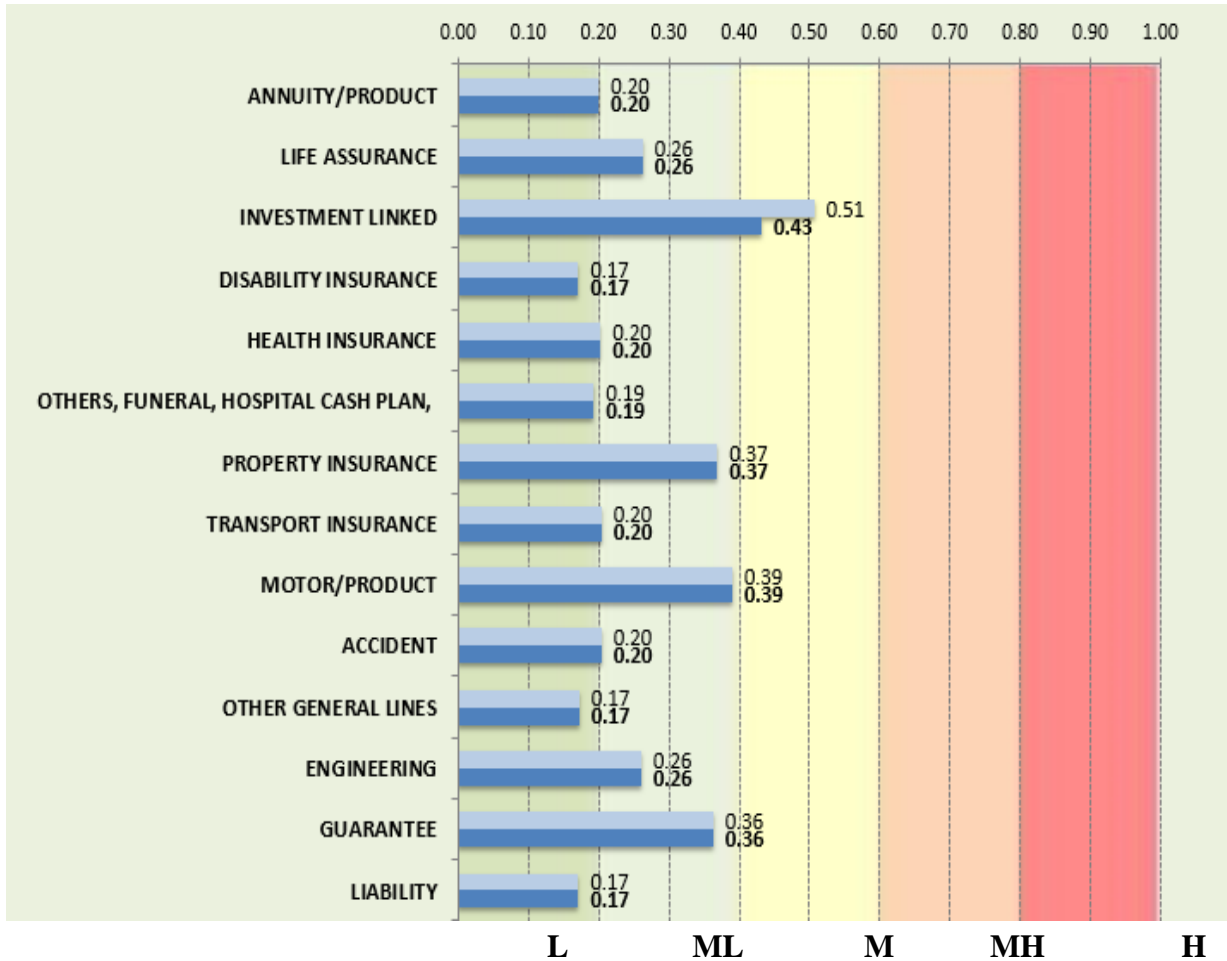
Other general insurance products lines not included above such as agriculture insurance (commercial and small-scale farmers/ FISP insurance – including livestock), defined as miscellaneous product lines accounted for a combined average of 4.5% of GWP. Usage of agents both at on-boarding or payout stage

is rated as **low** on all the products (except for FISP agriculture insurance that relies on agents to onboard and process claims to some extent). The products have no investment component reducing the vulnerability to ML. Typologies on the abuse of the products do not exist on the market. Generally, all the products are simple in nature and payouts are pre-agreed and disclosed on commencement. In view of the above, the miscellaneous product lines' vulnerability was rated as **low** with a score of **0.17**.

### Product vulnerability assessment

Figure 12 below shows the inherent and final vulnerability scores of each product assessed:

**Figure 12: Inherent and Final Vulnerability of Insurance products**



**Key:** Light blue – inherent vulnerability score; Dark blue – final vulnerability score

## **6.0 CHAPTER SIX: OTHER FINANCIAL INSTITUTIONS SECTOR MONEY LAUNDERING RISK**

As of 31<sup>st</sup> December 2024, the Other Financial Institutions (FIs) sector comprised Micro Finance Institutions (35), Bureaux De Change (66), Housing Finance Institutions (2) Leasing Companies (5), Payment Service Providers (84), and the National Savings and Credit Bank. For the purpose of this assessment and in line with the Other FIs module, Money Lenders (970) were included under Other FIs.

### **6.1 Objectives**

- (i) Identify the vulnerability of each of the (relevant) Other FIs categories in the country;
- (ii) Identify high vulnerability Other FIs categories;
- (iii) Identify on a needs basis the products/services/channels offered by these Other FIs categories with high ML vulnerabilities; and
- (iv) Prioritise action plans and strengthen AML controls for Other FIs categories.

### **6.2 Money Laundering Risk Level of the Other Financial Institutions Sector**

The level of ML risk for the Other FIs sector was assessed as **medium**. The assessment was arrived at following the sector's ML vulnerability being rated **medium low** and threats being rated **medium high**.

### **6.3 General Input Variables**

#### **(i) Comprehensiveness of AML Legal Framework**

This variable assesses whether a country has comprehensive AML laws and regulations regarding AML preventive measures and AML supervision of the Other FIs category being assessed.

The assessment revealed that the AML legal framework for the Other FIs category is comprehensive. The following are the key pieces of legislation that govern regulation and supervision of Other FIs:

- (i) the Financial Intelligence Centre Act No. 46 of 2010;
- (ii) the Banking and Financial Services Act No. 7 of 2017;

- (iii) the National Payment Systems Act No. 1 of 2007;
- (iv) the Prohibition and Prevention of Money Laundering Act, No. 14 of 2001;
- (v) the Public Interest Disclosure (Protection of Whistleblowers) Act, No. 4 of 2010;
- (vi) the Penal Code Act, Cap. 87 of the Laws of Zambia;
- (vii) the Anti-Terrorism and Non-Proliferation Act No. 6 of 2018; and
- (viii) the Forfeiture of Proceeds of Crime Act, No. 19 of 2010.

Notwithstanding the foregoing, the assessment established that Zambia has not promulgated a comprehensive AML legal framework to govern the supervision and regulation of Money Lenders.

In this regard, the Comprehensiveness of AML Legal Framework variable was rated **very high** with a score of **0.8**.

## **(ii) Effectiveness of Supervision/Oversight Activities**

This variable assesses the effectiveness of the AML supervision/oversight activities for the assessed Other FIs category.

Section 2 of the FIC Act designates the BoZ as a supervisory authority with responsibilities, as provided for in Section 36 of the FIC Act, to monitor and ensure compliance by reporting entities with their obligations under the FIC Act. Further, the BoZ has power to conduct AML/CFT supervision of the Other FIs it licenses as provided for under Section 62A of BFSAs.

As the supervisor of last resort, the FIC complements the BoZ in ensuring more adequate supervision of the Other FIs. Even though progress has been made to improve the capacity of AML/CFT/CPF supervision of Other FIs through the establishment of a dedicated AML/CFT/CPF Supervision Division, staff constraints and the absence of appropriate supervisory tools limit oversight activities for money service businesses and money lenders. Consequently, the effectiveness of supervision/oversight activities variable was rated **high** with a score of **0.7**.

### **(iii) Availability and Enforcement of Administrative sanctions for all Other FIs categories**

This variable assesses whether the country has a wide range of effective proportionate and dissuasive administrative sanctions to deal with natural/legal persons in cases of non-compliance with the AML laws and regulations.

Section 36(3)(b) of the FIC Act gives a supervisory authority power to impose administrative sanctions on financial service providers for non-compliance with their AML/CFT/CPF requirements. Further, Section 49(C)(1) provides for a broad range of administrative sanctions that can be applied including:

- (i) Cautioning the reporting entity not to repeat the conduct which led to the non-compliance;
- (ii) Reprimand the reporting entity or specific officer;
- (iii) Direct the reporting entity to take remedial action;
- (iv) Restrict or suspend specified business activities;
- (v) Issue cease and desist order;
- (vi) Suspend or revoke the licence; and
- (vii) A financial penalty not exceeding one million penalty units.

Notwithstanding the above, the administrative sanctions cannot be imposed on unregulated entities such as money lenders.

In the period 2019 – 2024, both the BoZ and the FIC imposed administrative sanctions against one institution in the Other FIs sector.

It was noted, however, that the maximum monetary penalty of one million penalty units (equivalent to ZMW400,000.00) was not proportionate and dissuasive. In this regard, the AML control variable for availability and enforcement of administrative sanctions was rated **high** with a score of **0.7**.

### **(iv) Availability and Enforcement of Criminal Sanctions**

This variable assesses whether the country has a wide range of effective proportionate and dissuasive criminal sanctions which are applicable to natural/legal persons in cases of non-compliance with the AML laws and regulations.

Part IV of the FIC Act provides for criminal sanctions for non-compliance by a reporting entity or an officer or employee of a reporting entity with any of the obligations under the FIC Act. The assessment established that staff from Other FIs believed that criminal enforcement actions would be initiated against them or their institutions in cases of breaches of AML-related obligations.

In the period under review, the assessment established that there were no prosecutions and convictions of reporting entities and individuals for failure to comply with the requirements of the FIC Act. This outcome was partly because of the preference by the supervisory authorities to use administrative sanctions. Therefore, the availability and enforcement of criminal sanctions variable was rated **medium high** with a score of **0.6**.

#### **(v) Availability and Effectiveness of Entry Controls**

This variable assesses the availability and effectiveness of entry controls (including licencing, registration and other forms of authorisation to operate) required for the Other FIs category.

BoZ is a licensing authority for Other FIs intending to operate in Zambia. The BFSa and the National Payments Systems Act (NPSA) prohibit the provision of a financial service or payment service without a licence or designation from BoZ while money lenders are required to obtain a certificate from a court and a licence from the Ministry of Finance and National Planning (MoFNP). However, not all business persons operating as money lenders are licenced by the MoFNP. Further, Money Lenders are not supervised for AML/CFT/CPF purposes.

BoZ has a Licensing Committee that evaluates all licence applications. The BFSa and the NPSA provide for the criteria used to review licence applications which include fitness and propriety assessment that are designed to prevent criminals (or their associates) from being granted licences.

Before a licence application is submitted, BoZ conducts pre-filing meetings with applicants to discuss the minimum licensing requirements. This practice has the benefit of increasing the success rate of the applications.

The assessment established that in practice the probity and fitness tests do not extend to associates of senior managers and owners of financial and payment service providers. Consequently, the availability and effectiveness of entry controls variable was rated **high** with a score of **0.7**.

**(vi) Integrity of Business/Institution Staff**

This variable assesses whether the directors, managers and staff of the business/institution act with integrity.

Integrity was considered a desirable attribute for staff in all the Other FIs. The Other FIs vetted their prospective employees for any previous criminal records before engaging them.

Generally, the Other FIs regarded their members of staff as secure from corruption by criminals. It was noted that this perception and fear by staff of the possibility of being subjected to criminal sanctions dissuaded members of staff from engaging in criminal activities. However, it was noted that incidences of integrity failure (e.g., negligent or “wilful blindness” to suspicious transactions) involving staff existed in all the Other FIs categories. It was further noted that disciplinary measures were taken against members of staff who were identified as engaging in fraudulent activities. The disciplinary measures ranged from suspension to having the individuals reported to law enforcement agencies.

In light of the foregoing, the variable was rated **medium high** with a score of **0.6**.

**(vii) AML Knowledge of Business / Institutional Staff**

This variable assesses how well staff from businesses/institutions within the Other FIs category know and understand their AML obligations.

Section 23 requires reporting entities to develop and implement programmes for the prevention of ML/TF/PF, including ongoing AML/CFT/CPF training for members of staff.

The analysis revealed that Other FIs members of staff were provided with appropriate AML/CFT/CPF training to ensure that their knowledge of

AML/CFT/CPF laws, policies, and procedures was relevant and up to date in line with the requirements of the FIC Act.

Additionally, the responses showed that staff members were aware of AML/CFT/CPF compliance and reporting procedures and obligations. Staff also understood the legal consequences of AML compliance breaches.

Whereas there was a marked improvement in the level of AML/CFT/CPF training in the Other FIs sector in the period since the previous NRA, it was nonetheless observed that much of the training was provided to staff at head offices who were increasingly knowledgeable about AML/CFT/CPF requirements. By contrast, knowledge gaps were noted in agents and staff in branches. Further, the assessment established that there was limited knowledge in the Money Lenders institutions.

In light of the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(viii) Effectiveness of Compliance Function (Organisation)**

This variable assesses whether businesses/institutions within the Other FIs category being assessed have effective compliance functions that are comprehensive, risk based and well-resourced with independent AML compliance functions.

Section 23 of the FIC Act requires Other FIs to establish compliance programme including appointment of compliance officers at senior management level. The assessment revealed that most of the Other FIs had established compliance functions other than Money Lenders. The majority of the Other FIs have inadequate resources other than Mobile Network Operators (MNOs). The institutions also took disciplinary actions against members of staff who did not comply with the AML/CFT policies.

The assessment further, revealed that small institutions in the Other FIs did not adequately conduct independent audits on their AML/CFTP compliance programmes due to financial constraints. The capacity constraints also negatively impacted their ability to sufficiently resource, independent AML compliance units and the appointment of compliance officers at sufficient levels of authority.

In view of the foregoing, the effectiveness of compliance function (Organisation) variable was rated **medium high** with a score of **0.6**.

#### **(ix) Effectiveness of Suspicious Activity Monitoring and Reporting**

This variable assesses whether businesses/institutions from the Other FIs category being assessed have effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures.

The assessment revealed that the majority of Other FIs had the following in place, among others:

- (a) information systems that enabled and facilitated the monitoring of client transactions and allowed for comparisons against the clients' profiles;
- (b) transactional records were available in a format that facilitates AML screening and monitoring;
- (c) their systems supported effective PIP and sanction screening, and identification of complex and unusually large transactions; and
- (d) they had designated members of staff that analysed suspicious transaction/activities and were aware of the requirement by law to report suspicious transaction/activities to the FIC.

Despite implementing measures that supported effective suspicious transaction reporting, it was observed that the majority of the Other FIs did not in fact file STRs to the FIC in the period under review.

Whereas the non-submission of STRs by money lenders was explained by the fact that they were not yet under any AML/CFT/CPF supervisory authority with responsibility to ensure their compliance with reporting requirements, the lower-than-expected level of STR reporting by payment service providers was a matter of concern not only because of the cash intensive nature of their transactions but also the fact that it was possible for an individual to hold multiple mobile money wallets that made the daily transaction limit ineffective as a control for ML risk. However, the MVTs sub-sector was the second highest reporting sector after the Banking sector in the period under review.

In light of the foregoing, Effectiveness of Suspicious Activity Monitoring and Reporting variable for the Other FIs sector was rated **high** with a score of **0.7**.

**(x) Availability and Access to Beneficial Ownership Information**

The variable was assessed under the Banking Sector as **medium high** with a score of **0.6**.

**(xi) Availability of Reliable Identification Infrastructure**

The variable was assessed under the Banking Sector as **medium** with a score of **0.5**.

**(xii) Availability of Independent Information Sources**

The variable was assessed under the Banking Sector as **high** with a score of **0.7**.

**6.4 Inherent Money Laundering Vulnerability of Other Financial Institutions**

The inherent ML vulnerability of the Other FIs categories assesses their susceptibility to ML, solely based on key inherent factors of the Other FIs categories, without considering the AML controls. The factors that were considered in assessing the inherent money laundering vulnerability of each category of the Other FIs are listed below:

**(i) Total Volume of the Other FI Category**

This variable assesses the Total Asset Size and the Total Turnover (volume) of the Other FIs which is indicative of the level of ML vulnerability that they can introduce into the Other FI category (if the relevant risks are not mitigated).

The assessment revealed that the payment systems and microfinance Institutions (MFIs) demonstrate high vulnerability due to their substantial transaction volumes. Payment Systems dominate in terms of total volume of transactions at 97% and constitute 78% of the total value of transactions. MFIs also hold a significant share of total assets among Other FIs, making them a focal point for risk. In contrast, Bureau de Change, Leasing Companies, Housing Finance Institutions (HFIs), and Savings & Credit Institutions exhibit low vulnerability, as their turnover and asset contributions are relatively minor. Development Banks were not analyzed due to their closure in July 2023. Money Lenders, although not assessed by volume,

present a high concern due to their sheer number of over 900 entities indicating regulatory challenges.

## **(ii) Client Base Profile**

This variable assesses whether the type of client that generally uses the Other FI category increases the risk of ML abuse within the category.

The assessment revealed that the client base profile across Other FIs generally reflects **low vulnerability**. Most categories, including Bureau de Change, MFIs, HFIs, and LFIs, show limited engagement with high-risk client types such as PIPs, High Net Worth Individuals (HNWIs), and clients with foreign interests or links to high-risk jurisdictions. However, Housing Finance Institutions stand out with high exposure to PIPs, HNWIs, and non-resident clients, elevating their vulnerability in this dimension. For money lenders and savings & credit Institutions, the assessment was not applicable due to insufficient data, which itself may indicate a need for improved transparency and reporting mechanisms.

## **(iii) Use of Agents**

This variable assesses how frequently agents are used to deliver products within the Other FI categories.

The assessment revealed that the payment systems are notably reliant on agents, which contributes to their **high** vulnerability. These agents are actively involved in business operations. It was noted that the scale and decentralization of agent networks increases risks. Other FI categories, including Bureau de Change, MFIs, HFIs, LFIs, Money Lenders, and Savings & Credit Institutions, show minimal use of agents, resulting in a **low** vulnerability rating in this area.

## **(iv) Level of Cash Activity**

This variable assesses the level of cash activity associated with the Other FI category being assessed, in particular, whether the use of cash is permitted, and to what extent the use of cash occurs.

The assessment revealed that Bureaux de Change, Payment Systems, and Money Lenders exhibit **very high** levels of cash activity, both in terms of over-the-counter

transactions and the proportion of cash relative to total business transactions. This elevates their risk profile significantly. Savings & Credit Institutions show **medium** vulnerability, while MFIs, HFIs, and LFIs maintain **low** levels of cash activity, resulting in **medium high** vulnerability.

#### **(v) Frequency of International Transactions**

This variable assesses the frequency of international transactions associated with the Other FI category that could increase the risk of ML abuse, in particular, Other FIs.

The assessment revealed that among Other FI categories, only Payment Systems demonstrated **high** vulnerability due to frequent use of international wire transfers. All other categories, including Bureau de Change, MFIs, HFIs, LFIs, Money Lenders, and Savings & Credit Institutions show **low** vulnerability, as their international transaction activity is minimal or non-existent.

#### **(vi) Other Vulnerable Factors**

This variable assesses whether there are any additional factors that render the Other FI category vulnerable to the risk of money laundering. Examples of other factors include the following:

- (a) Anonymous use of the product in the Other FI category;
- (b) Difficulty in tracing the transaction records;
- (c) Existence of ML typologies on the abuse of the Other FI category;
- (d) Use of the Other FI category in fraud or tax evasion schemes; and
- (e) Non-face-to-face use of the products in the Other FI category.

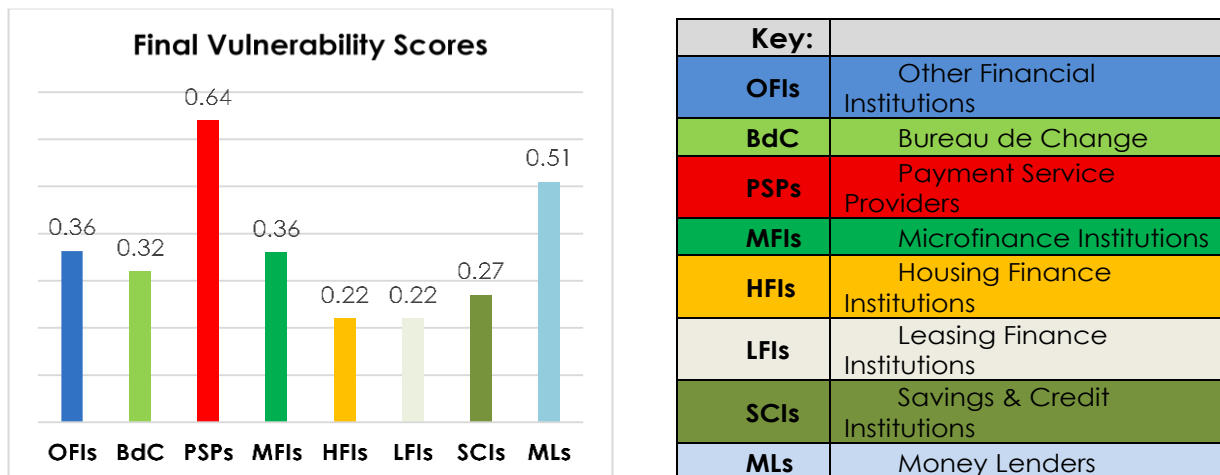
The assessment revealed that anonymous use of financial products is low across all categories, indicating strong customer identification practices. However, Money Lenders show **high** vulnerability in terms of record-keeping, with difficulties in tracing transaction records and limited accessibility for customer due diligence (CDD) and enhanced due diligence (EDD). While money laundering typologies exist for Bureau de Change, the overall vulnerability related to typologies is considered **low** across the board. Data on the use of Other FIs in fraud or tax evasion schemes was not fully available, suggesting a gap in monitoring or

reporting. Further, the non-face-to-face use of financial products is uniformly **low**, reflecting limited exposure to remote onboarding or service delivery risks.

### 6.5 Final Vulnerability Rating of the Other Financial Institutions Categories

The assessment revealed that the AML control variables of the Other FIs sector and the inherent vulnerabilities of each of the Other FIs categories was rated **medium low** with a score of **0.36**. The Figure 13 below indicates the overall and business categories of Other FIs ratings:

**Figure 13: Final Money Laundering Vulnerability of the Other FIs Sector**



Despite its overall low vulnerability score, the sector faces significant challenges with five AML control variables relating to the Effectiveness of Compliance Function (Organization), Integrity of Business/Institution Staff, Availability of Reliable Identification Infrastructure, Availability and Enforcement of Criminal Sanctions and Availability and Access to Beneficial Ownership information as shown in Figure 15, which presents the priority ranking of AML control variables. It should be noted that money lenders, who form part of this sector, are not regulated by the Central Bank, which further exacerbates these challenges. Consequently, these AML control variables have been prioritised in the action plan.

**Figure 14: Priority Ranking of AML Control Variables (OFIs)**

PRIORITY RANKING FOR AML CONTROLS - LAST CASE/SCENARIO	PRIORITY RANKING**
Comprehensiveness of AML Legal Framework	
Effectiveness of Supervision/Oversight Activities	
Availability and Enforcement of Administrative Sanctions	
Availability and Enforcement of Criminal Sanctions	4
Availability and Effectiveness of Entry Controls	
Integrity of Business/Institution Staff	2
AML Knowledge of Business/Institution Staff	
Effectiveness of Compliance Function (Organization)	1
Effectiveness of Suspicious Activity Monitoring and Reporting	
Availability and Access to Beneficial Ownership information	5
Availability of Reliable Identification Infrastructure	3
Availability of Independent Information Sources	

## **7.0 CHAPTER SEVEN: DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS SECTOR MONEY LAUNDERING RISK**

### **7.1 Objectives**

The main objectives of this assessment are to:

- (i) Identify the vulnerability of each of the (relevant) businesses and professions that make up the country's designated non-financial businesses and professions (DNFBP) sector;
- (ii) Identify businesses/professions of high vulnerability in the DNFBP sector;
- (iii) Identify, on a needs basis, the products/services offered by the businesses/professions with high ML vulnerability; and
- (iv) Prioritize action plans that will strengthen AML controls in the DNFBP sector.

### **7.2 Overview of the Sector**

The DNFBPs that operate in Zambia include real estate agents, legal practitioners, accountants and auditors, Trust and Company Service Providers (TCSPs)<sup>2</sup>, casinos, precious stones and metal dealers. Following the 2020 amendment to the FIC Act, motor vehicle dealers were reclassified from DNFBPs to accountable institutions. Therefore, they were assessed as an independent sector.

### **7.3 Vulnerability Assessment for the DNFBP Sectors**

The following variables in the assessment of vulnerabilities in the DNFBPs sector were considered:

#### **(i) Comprehensiveness of AML legal framework**

This variable assesses whether Zambia has comprehensive AML laws and regulations regarding AML preventive measures and AML supervision for the DNFBPs.

The assessment of the comprehensiveness of the AML legal framework revealed that there are existing laws aimed at ensuring compliance by the DNFBPs in

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<sup>2</sup> The Trust and Company Service Providers (TCSP) activities are offered by accountants and lawyers in Zambia. Therefore, there was no independent assessment of TCSPs.

Zambia. In particular, the FIC Act provides for preventive measures for ML/TF /PF and supervisory functions. The main laws that govern the operations of the DNFBPs are the following:

- (a) The Estate Agents Act, No. 21 of 2000 (for real estate agents);
- (b) The Accountants Act No.13 of 2008 (for accounting firms);
- (c) The Legal Practitioners Act Chapter 30 of the Laws of Zambia (Law firms);
- (d) The Tourism and Hospitality Act No. 13 of 2015 (Casinos);
- (e) The Mines and Minerals Act No. 11 of 2015 (Dealers in precious stones and metals),
- (f) Lands (Perpetual Succession) Act Chapter 186 (Trusts),

In addition, the AML legal framework include the following pieces of legislation:

- (a) The Financial Intelligence Centre Act No. 46 of 2010;
- (b) The Prohibition and Prevention of Money Laundering Act, No. 14 of 2001;
- (c) The Public Interest Disclosure (Protection of Whistleblowers) Act, No. 4 of 2010;
- (d) The Penal Code, Cap. 87 of the Laws of Zambia;
- (e) The Anti-Terrorism and Non-Proliferation Act No. 6 of 2018; and
- (f) The Forfeiture of Proceeds of Crime Act, No. 19 of 2010.

Based on the foregoing, the variable was rated **Close to Excellent** with a score of **0.9**

## **(ii) Effectiveness of supervision/oversight activities**

This variable assesses the effectiveness of AML supervision/oversight activities for the DNFBP sector.

Section 2 of the FIC Act designates ZIEA, ZiCA, LAZ, Licensing Committee for Casinos as Supervisory Authorities. It was established that the dealers in precious stones and metals do not have a designated supervisory authority. However, the FIC being a supervisor of last resort supervises all DNFBPs. TCSP activities and products are provided by lawyers and accountants who are supervised by LAZ and ZiCA.

The supervision activities by ZIEA, LAZ and the Licensing Committee were found to be limited. These institutions did not have dedicated staff for AML matters. Further, the three supervisory authorities have not developed monitoring and supervision tools. There are no risk-based supervision frameworks that have been developed and implemented by these supervisory authorities. Further, there were no supervisory activities that had been conducted in the TCSPs in the period under review. In relation to Dealers in Precious Stones and Metals (DPSM), the supervisory activities conducted in the period under review were limited. However, in relation to ZiCA, the assessment revealed that ZiCA had developed a supervisory manual, carried out inspections (off-site and onsite inspections) and issued directives to all accounting and audit firms to appoint compliance officers. Further, the supervisory manual provides clear supervisory procedures and processes that are aligned to the FIC Act, Accountants Act and International standards on Auditing (ISA).

Notwithstanding the foregoing, during the period under review, the FIC undertook monitoring and inspection activities for all the DNFBP sector. The FIC collaborated with ZIEA, LAZ and ZiCA to undertake some of the monitoring and inspections in their respective sectors.

In view of the foregoing, the variable was rated as indicated in table 26 below;

**Table 26: Effectiveness of Supervision/Oversight Activities Rating**

No.	Sector	Score	Rating
1	Real Estate	0.4	Medium Low
2	Casinos	0.2	Very Low
3	Accounting and Audit firms	0.5	Medium
4	Law firms	0.4	Medium Low
5	DPSM	0.2	Very Low

**(iii) Availability and enforcement of administrative sanctions**

This variable assesses whether Zambia has a wide range of effective, proportionate and dissuasive administrative sanctions applicable to natural or legal persons in case of non-compliance with AML laws and regulations.

The assessment established that while individual pieces of legislation that govern DNFBPs do not have any specific provisions on administrative sanctions for AML breaches, reliance is placed on Section 49C of the FIC Act. In line with section 52 of the FIC Act, the administrative sanctions can be extended to senior management and directors of a DNFBP. During the period under review, the FIC meted out four (4) sanctions in the sector.

In view of the foregoing the variable was rated **High** with a score of **0.7** for all the sectors.

#### **(iv) Availability and enforcement of criminal sanctions**

This variable assesses whether Zambia has a range of effective, proportionate and dissuasive criminal sanctions applicable to natural or legal persons in case of noncompliance with AML laws and regulations.

The variable was rated **very high** with a score of **0.8** as per the assessment of the Banking sector.

#### **(v) Availability and effectiveness of entry controls**

This variable assesses the availability and effectiveness of entry controls, including licensing, registration or other forms of authorization to operate. A country has effective entry controls if there is a comprehensive legal and regulatory framework, which provides authorities with appropriate powers and sufficient level of staff and other resources to carry out their duties vis a vis the assessed business or profession.

Entry controls in the real estate sector are reasonably strong, as provided under the Estate Agents Act. The law and the framework provide for procedures for the registration of estate agents to carry on the business of estate agents. Nevertheless, the sector is plagued by the presence of unregistered and informal agents who operate outside this framework. These unregulated actors pose a significant risk to AML compliance, as they are not subject to oversight or legal obligations.

In relation to casinos, the Tourism and Hospitality Act of 2015 requires casinos to be licensed and vetted by the Licensing Committee prior to commencement of

operations. Although there are regulatory requirements for licensing and ownership transparency, these are regularly bypassed by the applicants. Investigations have revealed cases where workers such as cleaners and gardeners were fraudulently registered as legal owners to obscure the true beneficial ownership of the casinos. This deliberate manipulation of entry controls undermines efforts to ensure accountability and creates an avenue for criminals to infiltrate and misuse the sector.

Entry controls for the legal profession are stringent and effectively enforced. The Law Association of Zambia Act Chapter 31 and the Legal Practitioners Act Chapter 30 provide for the criteria that have to be met for registering a law firm. Legal practitioners must meet educational qualifications and professional requirements to obtain practicing certificates through LAZ. These controls ensure that only qualified individuals are allowed to practice law, creating a layer of protection against unvetted or unethical actors. This structured entry system enhances sectoral integrity and contributes positively to AML efforts by limiting access to the profession. Further, there exists strict standards to be met before an individual can open a law firm.

The assessment revealed that the accounting and auditing sectors had stringent entry controls, such as licensing requirements and procedures that ensure that only qualified individuals can operate the accounting and audit firms as illustrated in Section 25 of the Accountants Act Chapter 390.

While licensing requirements and entry controls are in place through the Mines and Minerals Development Act No. 11 of 2015, a large number of illegal operators continue to participate in the sector. The inability of the Ministry to ascertain the full number of actors in the field reflects significant enforcement challenges. Further, the inability of the Ministry to comprehensively conduct fit and proper tests on applicants for mining licences allows criminal elements to operate freely. However, the recent establishment of the Minerals Regulation Commission under Act No. 14 of 2024 is expected to strengthen regulatory oversight, streamline licensing processes, and enhance enforcement capacity within the mining sector, thereby addressing these challenges.

In view of the foregoing, the variable was rated as indicated in table 27 below:

**Table 27: Availability and Effectiveness of Entry Controls Rating**

No.	Sector	Score	Rating
1	Real Estate	0.6	Medium High
2	Casinos	0.4	Medium Low
3	Accounting and Audit firms	0.7	High
4	Law firms	0.7	High
5	DPSM	0.3	Low

**(vi) Integrity of Business/Profession Staff**

This variable assesses whether the directors, managers and staff of the business/profession (including sole practitioners) act with integrity. This means that the staff do not act in a willfully blind manner or collude with criminals or act corruptly. In addition, they take care that they do not become unwittingly involved as “innocent agents” on behalf of criminals seeking to use their products and specialised knowledge and skills.

The assessment established that there were incidences of integrity failure (e.g., negligent or “wilful blindness” to suspicious transactions) involving staff existed in some of the businesses/professions.

As documented in the FIC Trends Reports, instances of staff involvement in illegal cross-border cash movements, collusion to disguise the ownership of casino entities and other illicit activities were prevalent.

The law firms had shown signs of vulnerability, particularly through the misuse of lawyer-client accounts to facilitate high-value suspicious transactions. These accounts were used to obscure the origins of illicit funds, particularly when not subject to rigorous oversight. The 2021 FIC Trends Report documented a case where a lawyer knowingly, received and helped channel illicit proceeds disguised as investments and community development funds thereby acting as a conduit for money laundering. Notwithstanding the foregoing, LAZ has in place Legal Practitioners Rules that regulate the professional conduct of legal practitioners.

In the real estate sector, there were reported incidences of real estate agents corruptly facilitating transactions for clients to acquire property without

complete identification and verification documents thereby increasing the sector's vulnerability.

With regard to the accounting/auditing profession, it was noted that ZICA had adopted and implemented International Code of Ethics for Professional Accountants that regulates the conduct of the accounting/auditing profession. In the period under review, there were few cases that were reported regarding misconduct or collusion by the accounting/auditing profession that would compromise their integrity.

The integrity of staff in the DPSM is compromised by the widespread presence of unauthorized and illegal dealers, many of whom engage in suspicious transactions or bypass AML requirements and other regulatory obligations.

In view of the foregoing analysis, the variable was rated as indicated in Table 28 below:

**Table 28: Integrity of Business/Profession Staff**

No.	Sector	Score	Rating
1	Real Estate	0.4	Medium Low
2	Casinos	0.2	Very Low
3	Accounting and Audit firms	0.6	Medium High
4	Law firms	0.4	Medium Low
5	DPSM	0.5	Medium

**(vii) AML knowledge of Business/Profession Staff**

This variable assesses how well the professionals and staff of the firms in the assessed business/profession know and understand their AML duties and responsibilities.

There is a general lack of awareness and understanding of AML obligations among real estate agents and staff. The real estate agents have inadequate AML/CFT/CPF training for their members of staff. From the inspections and monitoring exercises conducted by the FIC, it was noted that most of the real estate agents do not have training programmes on AML/CFT/CPF. Notwithstanding the foregoing, the FIC has in the period under review been carrying out the AML/CFT/CPF training on the sector.

The level of AML knowledge among casino staff, particularly those at the front line, is insufficient. Many employees are unaware of basic obligations such as customer due diligence, identifying red flags, and submitting Suspicious Transaction Reports (STRs). This knowledge gap leads to missed opportunities for early detection of financial crimes.

In relation to law firms, the assessment established that LAZ had established an AML desk and designated an official who in the period under review organized AML training with law firms in collaboration with the FIC. This initiative to some extent increased the level of awareness on AML/CFT/CPF obligations. However, inspections and other reviews that the FIC has conducted has established that AML knowledge among legal practitioners remains inconsistent and often inadequate. This is as a result of many law firms not having developed AML/CFT/CPF programmes. Despite the FIC conducting AML training in the sector, there remains a significant number of lawyers that are unfamiliar with their AML/CFT/CPF obligations. This gap undermines the sector's ability to effectively detect and prevent money laundering.

The assessment for accounting/auditing profession revealed that the practitioners' knowledge on AML/CFT/CPF was generally fair. This is due to the fact that ZiCA and FIC have rolled out AML/CFT/CPF training to practitioners during their annual general meetings and other fora. Notwithstanding the foregoing, the small and medium accounting/auditing firms lack specialized AML/CFT/CPF training. Most accounting/auditing practitioners, especially outside major urban areas, have limited awareness of their AML obligations.

The assessment for DPSM revealed that large-scale operators have to some extent developed training programmes and have fair knowledge on AML matters and obligations. This is not the same for the small dealers who lack awareness of their AML obligations. Nevertheless, in the period under review, the FIC conducted training to increase AML/CFT/CPF knowledge in the sector.

In view of the foregoing, the variable was rated as indicated in table 29 below:

**Table 29: AML knowledge of business/profession staff**

No.	Sector	Score	Rating
1	Real Estate	0.4	Medium Low
2	Casinos	0.3	Low
3	Accounting and Audit firms	0.6	Medium High
4	Law firms	0.4	Medium Low
5	DPSM	0.4	Medium Low

**(viii) Effectiveness of Compliance Function (Organization)**

This variable assesses whether firms (including sole practitioners) in the assessed business/profession have an effective compliance function that is comprehensive, risk based and well-resourced with an independent compliance function.

In relation to real estate, the assessment revealed that the compliance function is underdeveloped, with very few entities establishing compliance function. In the few entities with an established compliance function, the assessment revealed that these lack adequate resources and they are not independent to carry out their AML/CFT/CPF obligations.

In relation to casinos, the assessment revealed that the majority of casinos have not established compliance functions. For those that have appointed compliance officers the assessment established that these lack operational independence, not adequately resourced and they are not risk based. This near-total absence of compliance structures makes it almost impossible to ensure ongoing adherence to AML requirements.

With regard to legal practitioners, it was established that the majority of law firms did not have compliance functions. For those that had existing compliance function, they were not operationally independent, not adequately resourced and were not risk based. This could partly be attributable to their small size and resource constraints.

In relation to accounting/audit firms the assessment revealed that large and medium firms had established compliance functions which to some extent were well resourced. This was not the same for the small accounting/audit firms. Overall compliance functions in the accounting and audit firms were not risk based.

With regard to DPSM, the majority did not have a compliance function. The few that had established a compliance function were fairly well resourced. However, the compliance function overall in the DPSM sector were not risk based.

In view of the foregoing analysis, the variable was rated as indicated in table 30 below:

**Table 30: Effectiveness of Compliance Function Rating**

No.	Sector	Score	Rating
1	Real Estate	0.2	Very Low
2	Casinos	0.3	Low
3	Accounting and Audit firms	0.4	Medium Low
4	Law firms	0.2	Very Low
5	DPSM	0.4	Medium Low

**(ix) Effectiveness of Suspicious Activity Monitoring and Reporting**

This variable assesses whether the firms of the assessed business/ profession have effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures.

The assessment of the real estate agents on this variable established that estate agents had not developed effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures. In the period under review, there were no STRs filed to the FIC by real estate agents. The agents failed to identify red flags due to lack of transaction monitoring Systems. Further, the interviews with most real estate agents revealed that they were unaware of their reporting obligations.

In relation to the casino sector, the assessment established that reporting of suspicious transactions is lacking. This could be attributed to the sector not having developed transaction monitoring systems and lacking the necessary skills and capacity to identify red flags. The assessment revealed that only two betting companies filed 19 STRs to the FIC. The assessment noted that no STRs were filed by land-based casinos in the period under review. This was attributable to the fact that the sector had not developed effective and appropriate systems for record

keeping, monitoring and STR reporting to support their AML policies and procedures.

With regard to law firms, the assessment established that no STRs were submitted by law firms in the period under review. This demonstrates willful blindness and lack of appreciation of the importance of filing STRs to the FIC by the sector. Further, the majority of the law firms have not developed and implemented effective monitoring systems that would assist in detecting unusual transactions. From inspections conducted by the FIC, it was established that some law firms claimed that filing of STRs would violate the client-lawyer privilege. This shows lack of knowledge on the requirements to file STRs to the Centre as provided for under Section 29 of the FIC Act and the FATF standards, which recognize client-lawyer privilege.

In relation to accounting and audit firms, there were two (2) STRs filed in the period under review. The assessment established that large to medium accounting firms had mechanism to identify potentially suspicious transactions, especially in high-risk matters like services such as tax planning, business restructuring, offshore advice, or asset management which are inherently high-risk.

In the period under review, the assessment revealed that small and medium sized DPSMs had not developed effective and appropriate systems for record keeping, monitoring and STR reporting to support their AML policies and procedures. No STRs were filed in the period under review by the DPSMs.

The FIC undertook initiatives to assist the DNFBP sector such as the issuance of Suspicious Transaction Reporting Guidelines, awareness programmes and training, with the intention of improving their compliance with AML/CFT/CPF requirements.

In view of the foregoing, the variable was rated as indicated in table 31 below:

**Table 31: Effectiveness of Suspicious Activity Monitoring and Reporting**

No.	Sector	Score	Rating
1	Real Estate	0.1	Close to nothing
2	Casinos	0.3	Low
3	Accounting and Audit firms	0.3	Low
4	Law firms	0.2	Very Low
5	DPSM	0.1	Close to nothing

**(x) Availability and Access to Beneficial Ownership Information**

This variable was assessed under the Banking Sector as **medium high** with a score of **0.6** (Source: Banking Sector).

**(xi) Availability of Reliable Identification Infrastructure**

The variable was assessed under the Banking Sector as **medium** with a score of **0.5** (Source: Banking Sector).

**(xii) Availability of Independent Sources**

The variable was assessed under the Banking Sector as **high** with a score of **0.7** (Source: Banking Sector)

Figure 15 below shows the vulnerability of the DNFBP sector:

**Figure 15: ML Vulnerability for the DNFBP sectors**

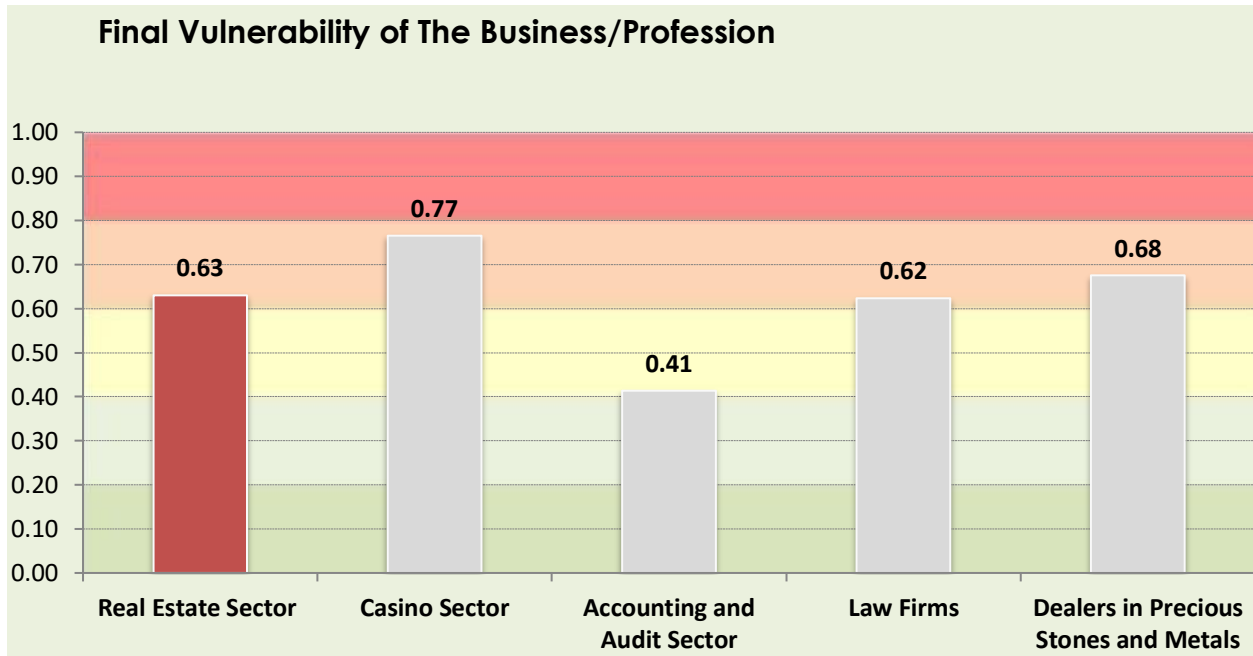


Figure 16 below shows the priority of the DNFBP sector:

**Figure 16 Priority Ranking for the DNFBP Sectors**

<b>PRIORITY RANKING FOR GENERAL INPUT VARIABLES/AML CONTROLS</b>	<b>Real Estate Sector</b>	<b>Casino Sector</b>	<b>Accounting and Audit Sector</b>	<b>Law Firms</b>	<b>Dealers in Precious Stones and Metals</b>
Comprehensiveness of AML Legal Framework					
Effectiveness of Supervision/Oversight Activities	2	2	1	2	2
Availability and Enforcement of Administrative Sanctions					
Availability and Enforcement of Criminal Sanctions					
Availability and Effectiveness of Entry Controls	6	6			4
Integrity of Business/ Profession Staff	5	4	5	5	6
AML Knowledge of Business/ Profession Staff	1	1	3	1	1
Effectiveness of Compliance Function (Organization)	3	3	3	3	5

Effectiveness of Suspicious Activity Monitoring and Reporting	4	5	2	4	3
Availability and Access to Beneficial Ownership information	8	8	7	7	8
Availability of Reliable Identification Infrastructure	7	7	6	6	7
Availability of Independent Information Sources					

**7.4 Summary of the Vulnerability and Threat Ratings in the DNFBP Sectors**

**(i) Real Estate**

The sector faces significant vulnerabilities due to its clientele, which comprises foreign nationals and PIPs. These clients often utilize third parties to execute transactions, effectively distancing themselves from direct involvement and making the determination of beneficial ownership challenging. Additionally, agents frequently fail to verify the source of income during transactions. Large cash transactions, particularly those involving PIPs, further heighten the risks within the sector. The presence of unregistered and unlicensed players exacerbates these vulnerabilities, as it undermines regulatory oversight and increases the potential for illicit activities.

**(ii) Casino**

The sector is vulnerable due to the fact that it is not being regulated comprehensively and effectively. The law provides for regulation through the Licencing Committee which in practice is not effective. The other factor contributing to the sector’s vulnerability is the fact that most of the high value clients are foreigners and PIPs. Further, casinos offer online gambling which is not properly understood or regulated by the licencing authority. Identification of customers is not performed and source of income is not established. There are large cash transactions that take place involving foreign clients making the sector vulnerable to abuse. Weak regulation also increases the sector’s vulnerability. Additionally, the Trends Reports by the FIC in the past five years have been indicating how the sector has been misused for illicit activities such as casinos engaging in illegal cross border cash courier businesses, and other illicit activities. The typologies and inspections conducted by the FIC show that the sector is susceptible to ML threat as BO information is not easily accessed.

### **(iii) Law Firms**

The sector is vulnerable due to ineffective AML oversight by LAZ.

The following are the services that lawyers offer to their clients and are considered susceptible to abuse by money launderers: buying and selling of real estate; managing of client money, securities or other assets; management of bank, savings or securities accounts on behalf of clients; organisation of contributions for the creation, operation or management of companies; or creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

### **(iv) Accounting/ Audit Firms**

The sector is susceptible to ML due to some services that are offered by accounting and audit firms that may be abused for ML purposes. These include: buying and selling of real estate; managing of client money, securities or other assets; management of bank, savings or securities accounts on behalf of clients; organisation of contributions for the creation, operation or management of companies; or creation, operation or management of legal persons or arrangements, and buying and selling of business entities. Typologies show that in some instances accounting and audit firms have employed techniques such as transfer pricing, trade mispricing, mis-invoicing of services and intangibles and shifting of profits.

### **(v) Dealers in Precious Stones and Metals**

The sector is vulnerable due to the high value products that are traded such as gold and emeralds. In the period under review, the assessment revealed that the majority of the small-scale miners (artisanal) were operating illegally. There is also high use of cash in transactions making the sector attractive to money launderers. The Identification of customers is not performed especially by smaller players who are the majority and source of income is not established. Lack of effective and comprehensive regulation also increases the sector's vulnerability. Nonetheless, the recent establishment of the Minerals Regulation Commission under Act No. 14 of 2024 is expected to strengthen regulatory oversight, streamline licensing processes, and enhance enforcement capacity within the mining sector, thereby addressing many of these long-standing challenges.

Table 32 below depicts ML risk in each sector:

**Table 32: ML Risk in the DNFBP Sector**

No.	Sector	Rating of ML Threat	Rating of ML Vulnerability	ML Risk
1.	Real Estate	High	Medium High	High
2.	Casinos	High	High	High
3.	Law firms	High	Medium High	High
4.	Accounting/ audit firms	Medium	Medium Low	Medium
5.	DPSM	High	Medium High	High

## **8.0 CHAPTER EIGHT: MOTOR VEHICLE SECTOR MONEY LAUNDERING RISK ASSESSMENT**

### **8.1 Objectives**

- (i) To identify the ML threat for the motor vehicle sector;
- (ii) To identify the ML vulnerability for the motor vehicle sector; and
- (iii) To prioritise action plans and strengthen AML controls for the sector.

### **8.2 Overview of the Sector**

The FIC Act designates motor vehicle dealers (MVDs) as accountable institutions. As accountable institutions, MVDs have an obligation to conduct CDD, keep records and file CTRs among other obligations. However, MVDs are not designated as reporting entities and therefore are not obligated by law to file STRs to the FIC. Typologies around the region show that MVDs are susceptible to ML/TF abuse.

### **8.3 Overall Money Laundering Risk in the Motor Vehicle Sectors**

The **ML risk** for MVDs was assessed to be **medium high** based on the ML threat assessment being rated **medium** and vulnerability assessment being rated **medium high**.

### **8.4 ML Threat Assessment**

Over the years, the MVD sector has been growing, more so the second hand MVDs. Both new and second hand MVDs are key players in Zambia's economy. MDVs are susceptible to ML/TF/PF abuse. The assessment revealed that the operations of the second-hand car dealers are less formal and highly cash-intensive in nature. The clientele base for this sector is largely nationals but dealers are mostly foreign car dealers. While dealers were of the view that there were no anonymous clients in the sector, the assessment showed that in some instances agents/middlemen were used to complete transactions. Agents can be a target for ML launderers.

As movable goods, motor vehicles have been a target by criminals to launder their illicitly acquired funds. Zambia has a cash economy and the use of cash

poses a high risk for ML, making it easy for criminals to move illegally obtained funds without the possibility of tracing the source of the funds. For high value properties, such as motor vehicles, they are attractive to criminals. The typologies produced by the FIC, as well as investigations and prosecution concluded in the period under review show that the sector was being abused for ML. Therefore, the ML threat for MVDs was assessed **medium**.

## **8.5 Money Laundering Vulnerability Assessment**

The Motor Vehicle sector is confronted with a number of vulnerabilities making it susceptible to ML risks. Second-hand car dealership involves substantial amounts which can facilitate the concealment of illicit funds. Porous borders exacerbate these risks where illegally imported vehicles can be used to launder money and allow criminals to convert illicit cash into valuable assets which could be resold or used to further illicit activities. Furthermore, the predominant use of cash in this sector makes transaction monitoring and tracing very difficult. The sector also lacks comprehensive regulatory AML/CFT/CPF supervision. Notwithstanding that the FIC designates MVDs as accountable institutions, there are other AML/CFT/CPF obligations that do not apply to MVDs such as filing of STRs to the FIC and designation of Compliance Officers in this sector.

The FIC has been conducting AML/CFT/CPF awareness to the MVDs to enhance their knowledge on AML/CFT/CPF matters. However, the assessment revealed that AML/CFT/CPF awareness conducted by the FIC tended to focus more on designated reporting entities rather than accountable institutions. Therefore, the Vulnerability for the Sector was assessed to be **medium high**.

## **9.0 CHAPTER NINE: VIRTUAL ASSETS AND VIRTUAL ASSET SERVICE PROVIDERS RISK ASSESSMENT**

Zambia assessed the ML and TF risks in the Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs). The report can be accessed using the following link or obtained from the FIC website: [www.fic.gov.zm](http://www.fic.gov.zm)

## **10.0 CHAPTER TEN: LEGAL PERSONS AND LEGAL ARRANGEMENTS MONEY LAUNDERING/TERRORIST FINANCING RISK**

### **10.1 Objectives**

The main objectives of the money laundering and terrorism financing national risk assessment of legal persons and arrangements were:

- (i) to identify ML threats associated with the use of legal persons and arrangements;
- (ii) to assess the vulnerability associated with legal persons and arrangements; and
- (iii) to make recommendations on the actions to be taken to prevent and detect ML and TF undertaken through the use of legal structures.

### **10.2 Overview of the Sector**

Legal structures (legal persons and arrangements) are formed to undertake commercial, entrepreneurial and charitable activities and they play a critical role as drivers of the economy world over. It is worth pointing out that those legal structures can be abused for money laundering, terrorism financing and proliferation financing among other crimes.

Therefore, this risk assessment of legal persons and arrangements was undertaken to provide a comprehensive overview of Zambia's key ML and TF risks posed by legal persons and arrangements in Zambia, and to give competent authorities and stakeholders a consolidated view that enable their development and adoption of Zambia's AML/CFT strategies, policies and AML/CFT measures specific to their institutions.

The legal persons and arrangements comprise companies, partnerships, foundations, trusts and others.

### **10.3 Mapping of Legal Persons and Arrangements in Zambia**

The mapping of legal persons and arrangements considered a comprehensive overview of all legal persons and legal arrangements that can be created or registered under your jurisdiction's national laws.

**(i) Legal Persons and Arrangements Created in Zambia**

The legal framework in Zambia permits registration of different types of legal persons and arrangements as depicted in table 33 below:

**Table 33: Legal Persons and Arrangements that can be created in Zambia**

<b>Legal Person and Arrangements</b>	<b>Statute</b>	<b>Can establish a permanent relationship with a FI?</b>	<b>Can legally own property in its name?</b>
<b>Private Company Limited by Shares</b>	Companies Act No. 10 of 2017	<b>Yes</b>	<b>Yes</b>
<b>Private Unlimited Companies</b>	Companies Act No. 10 of 2017	<b>Yes</b>	<b>Yes</b>
<b>Public Limited Company (PLC)</b>	Companies Act No. 10 of 2017	<b>Yes</b>	<b>Yes</b>
<b>Company Limited by Guarantee</b>	Companies Act No. 10 of 2017	<b>Yes</b>	<b>Yes</b>
<b>Business Names</b>	Registration of Business Names Act No. 16 of 2011	<b>Yes</b>	<b>No</b>
<b>Foreign Companies</b>	Companies Act No. 10 of 2017	<b>Yes</b>	<b>Yes</b>
<b>Trusts</b>	Land (Perpetual) Succession Act CAP 186 of the Laws of Zambia	<b>Yes</b>	<b>Yes</b>
<b>Community Service Societies</b>	Societies Act CAP 119 of the Laws of Zambia	<b>Yes</b>	<b>No</b>

**(ii) Total Number of Registered Legal Persons and Arrangement in Zambia Between 2019 and 2024**

During the period under review, the number of legal persons and arrangement registered in Zambia were as summarized in table 34 below.

**Table 34: Total Number of Registered Legal Persons and Arrangement in Zambia Between 2019 and 2024**

Legal Person and Arrangements	2019	2020	2021	2022	2023	2024
Private Company Limited by Shares	9,410	10,471	13,805	17,151	17,017	18,270
Private Unlimited Companies	0	1	1	6	10	23
Public Limited Company (Plc)	3	7	3	6	3	2
Company Limited by Guarantee	550	638	624	664	688	645
Business Names	18,729	17,480	18,415	29,752	34,485	36,694
Foreign Companies	76	86	79	81	75	103
Trusts	158	143	196	136	122	162
Community Service Societies	266	238	261	182	109	94

Year on year, the Business Name continued to be the highest category of registered legal persons in Zambia.

#### **10.4 Money Laundering Vulnerability of Legal Persons and Arrangements**

The national ML vulnerability of legal persons and arrangements in Zambia was rated **medium high** with a score of **0.62**.

This rate was determined through an assessment of the Attractiveness for Non-Resident Incorporation (ANRI), which was rated **medium low** with a score of **0.43**, and the strength of mitigation measures, which was rated **medium low** with a score of **0.39**.

##### **(i) Attractiveness for Non-Resident Incorporation (ANRI Score)**

The ANRI score is a measure of a jurisdiction's general attractiveness as a formation or incorporation centre for non-residents, considering different types of legal structures. The assessment includes features related to a jurisdiction's general legal, institutional, economic, regulatory and political frameworks that impact its attractiveness for the provision of company formation services and

related professional services to non-resident individuals and non-resident legal entities.

The assessment observed that the following factors contributed to Zambia's general attractiveness as a formation or incorporation centre for non-residents:

**(i) Size and Influence of Offshore Company Formation Business Sector**

The assessment established that whilst there exist professionals who may assist with the formation of offshore companies in Zambia, the economic conditions and legal framework do not support this type of business sector. Therefore, the variable was rated **very low**.

**(ii) Advertising to Non-Residents**

As assessed under (a) above, Zambia does not deliberately advertise to non-residents for offshore business formation. This is because the economic conditions and legal framework do not support this type of business sector. Therefore, the variable was rated "**not at all**."

**(iii) Political and Economic Stability**

Zambia is ranked among the top ten most peaceful countries in Africa. The political and institutional framework were found to be stable as there has been smooth transfer of power over many decades. In addition, the country's economic performance over the assessment period has been improving as evidenced by the consistent economic growth in the period under review. These factors may attract non-residents to incorporate in Zambia. In view of the foregoing, the variable was rated **high**.

**(iv) Strength of Rule of Law**

Zambia is governed by the Constitution which is the supreme law of the land. The Companies Act provides a framework for the formation of companies. The Judiciary is one of the three arms of Government and operates autonomously. It enforces contractual obligations and protects property ownership rights. In view of the foregoing, the variable was rated **high**.

#### **(v) Legal Framework for Asset Protection**

The assessment established that the Constitution of Zambia does not allow confiscation of private property which is legally owned without compensation. There is a strong legal framework that protects private property in Zambia. Government has put in place measures that do not distinguish between domestic and international clients. The statutes on civil forfeiture and confiscation are strong and well enforced. In view of the foregoing, the variable was assessed as **strong and robust**.

#### **(vi) Perceived Corruption Levels**

Over the review period, Zambia's Corruption Perception Index (CPI) has been improving, rising from 34 (ranking 113<sup>th</sup> out of 180 countries worldwide) in 2019 to 39 in 2024 (ranking 92<sup>nd</sup> out of 180 countries worldwide). This perception is in line with the findings of the Zambia Bribe Payers Index (BPI). In view of the foregoing, the variable was rated **medium**.

#### **(vii) Beneficial Ownership Transparency**

The Companies Act No of 2017 has requirements for companies to disclose beneficial ownership (BO) information. The country has established a centralized BO registry. The assessment revealed that the BO registry may be easily accessed by competent authorities and the public. However, it was established that BO information on the registry was not always accurate or up to date. Further, the verification of BO information by the PACRA was found to be inadequate. The enforcement of BO disclosure regulations was also found to be inadequate. In view of the foregoing, the variable was rated **medium**.

#### **(viii) Tax Attractiveness**

Tax incentives in Zambia target particular sectors and special economic zones. They do not necessarily target non-residents or foreigners. The country does not have acquisition of citizenship or residency status based on a passive investment or payment. Further, the country has sufficient tax administration capacity to investigate, monitor, and prosecute tax evasion and collect unpaid taxes. In view of the foregoing, the variable was rated **medium**.

**Table 35: ANRI Rating**

	Input Variable	Rating
<b>ANRI</b>	Size and Influence of Offshore Company Formation Business Sector	Very low
	Advertising to Non-Residents	Not at all
	Political and Economic Stability	High
	Strength of Rule of Law	High
	Legal Framework for Asset Protection	Strong/ robust
	Perceived Corruption Levels	Medium
	Beneficial Ownership Transparency	Medium
	Tax Attractiveness	Medium

In light of the foregoing, the overall rating of the ANRI was **medium low** with a score of **0.43**.

## 10.5 Money Laundering Threat Assessment for Legal Persons and Arrangements

This variable is aimed at determining the strength of existing mitigating measures against abuse of legal structures in Zambia. The following nine intermediate variables were considered, each covering different areas where mitigation measures may be applied.

### (i) Quality of Corporate Registry

#### (a) Comprehensiveness of Coverage

All legal entities are required to register under the Companies Act, while Trusts are required to register under the Lands (Perpetual Succession) Act, Cap 186 of the Laws of Zambia. There are no exemptions from the requirement for registration. The variable was rated **fully comprehensive**.

#### (b) Level of Accurate & Up-to-Date Information

The assessment established that basic company information in the corporate registry was accurate and up to date. However, it was established that in some instances information was not regularly updated. In addition, the corporate registry has the ability

to automatically terminate companies that fail to update their information. The variable was rated **medium**.

**(c) Adequacy of Resources**

The assessment of the level of adequacy of resources of the corporate registry such as information technology (IT) equipment, staffing and financial resources was rated **medium**, as the resources were not sufficient for the registry to adequately fulfill its mandate.

**(d) Automatic Alerts**

The assessment established that the registry has the capability to automatically alert legal entities when an update is required. Further, the registry informs entities of possible penalties including termination, if information is not updated. However, the registry does not automatically alert regulators when updated information is required but not submitted. The variable was rated "**exists.**"

**(e) Online Access**

The assessment established that basic information about legal entities in the corporate registry was accessible online with a basic charge of USD 5.00. The variable was rated "**exists but small access restrictions.**"

**(f) Quality of Data Format and Search Options**

The assessment established that the quality of the data format and available search options in the corporate registry was searchable by various options such as legal entity name, name of director (or secretary, partner or other person associated with the entity - by first and last name, business address, and registered agent. The variable was therefore rated **High**.

**(ii) Quality of Information Obtained Through CDD**

**(a) CDD by FIs**

The FIs have developed and implemented CDD procedures and processes as required in the FIC Act, which includes identification and verification of directors and beneficial

owners. FIs identify beneficial owners of legal structures through collecting of information when customer circumstances change, at the point of establishing a business relationship, when carrying out occasional transactions of a specified threshold, when conducting a wire transfer or when there is a suspicion of ML/TF. The information is obtained from reliable independent source documents including the Companies Registry. The variable was rated **medium**.

**(b) CDD by TCSPs**

TCSP services in Zambia are mostly offered by lawyers and accountants. This variable therefore, **does not exist**.

**(c) CDD by Gatekeepers**

Gatekeepers include professional advisers such as accountants and lawyers. These are considered as reporting entities in the AML/CFT/CPF framework. The FIC Act requires gatekeepers to collect CDD information on beneficial owners. The assessment established that gatekeepers have not developed effective CDD processes and procedures to collect BO information. In light of the foregoing, the variable was rated **low**.

**(d) AML/CFT Risk Awareness of TCSPs**

TCSP services in Zambia are mostly offered by lawyers and accountants. This variable therefore, **does not exist**.

**(e) Quality of Risk-Based Enhanced CDD Measures**

The assessment established that while risk-based enhanced CDD measures for legal structures were applied according to the level of risk such as geography, sector, complexity of structure, and purpose of the entity were in place, their effectiveness was mixed. Enhanced CDD was also applied to high-risk customers including PIPs. The application of risk based enhanced CDD was mostly in the FIs. The variable was rated "**exists and mixed effectiveness**."

### **(iii) Quality of Regulation & Supervision of TCSPs**

The TCSP services in Zambia are provided by accountants and lawyers. The accounting firms and law firms are supervised by ZICA and LAZ. In terms of AML/CFT regulation the FIC is the main regulator for the sectors. The FIC in collaboration with ZICA has implemented a risk-based supervision for the accounting firms. Further, the FIC has developed and rolled out a risk-based supervision framework for all DNFBPs including TCSPs. The variable was rated **medium**.

### **(iv) Accessibility of Beneficial Ownership Information**

#### **(a) Level of Access by Competent Authorities**

Competent authorities include supervisory authorities, LEAs, NPA and FIC. The assessment established that competent authorities have **direct access** to the central registry of BO information.

#### **(b) Level of Access by Reporting Entities**

Reporting entities include FIs, DNFBPs and VASPs. The assessment established that reporting entities have **some access with restrictions**.

#### **(c) Level of Public Access**

The public can only access BO information upon paying a fee. The assessment established that the public has **some access with restrictions**.

#### **(d) Quality of Data Format & Search Options**

The assessment established that the quality of the data format and available search options in the corporate registry was high and searchable by various options such as legal entity name, name of director (or secretary, partner or other person associated with the entity - by first and last name, business address, and registered agent. The variable was therefore rated **high**.

**(v) Existence and Effectiveness of BO Verification Mechanisms**

**(a) Quality of Routine Verification**

The assessment established that routine verification of BO information **does not exist**.

**(b) Discrepancy Reporting Mechanism**

The assessment established that the mechanism for reporting discrepancies and errors in collected BO information **do not exist**, as the verification mechanisms that are supposed to identify discrepancies are non-existent.

**(c) Red-flagging for enhanced checks**

The assessment established that there were **no mechanisms** for red flagging of potential risk factors that trigger enhanced checks of the supplied information on beneficial ownership.

**(d) Cross-checks with other data sources**

The assessment established that cross-checks of BO information supplied by legal entities with other data sources conducted for verification purposes **does not exist**.

**(e) Availability & Quality of Other Information Sources**

The assessment established that availability and quality of other information sources that can assist with identification of beneficial owners exist. However, the databases are not integrated. This variable was therefore rated **medium**.

**(vi) Effectiveness of International Information Exchange**

**(a) International exchange of AML information**

The country has enacted the Mutual Legal Assistance in Criminal Matters Act which facilitates international exchange of information including BO information. Further, the FIC as a member of the Egmont Group of FIUs, exchanges AML/CFT information including BO information. In addition, international treaties and MOUs

have been signed which encourage countries to exchange information on AML/CFT matters including BO. Nevertheless, the turn-around time for responses to international requests is lengthy. In this regard, the variable was rated **medium**.

#### **(b) International exchange of tax information**

At the time of the assessment, Zambia was in the process of fully operationalizing its international frameworks for the exchange of tax information. Notwithstanding the foregoing, the country joined the Global Forum on Transparency and Exchange of Information for Tax Purposes and has demonstrated commitment to implementing both the Exchange of Information on Request (EOIR) and the Automatic Exchange of Financial Account Information (AEOI) standards, the country remains within the three-year induction period, with full implementation expected by 2027. Further, using the diagonal exchange of information, tax information can be exchanged outside the established international framework on the exchange of tax matters.

In addition, the assessment established that automatic exchanges under the Common Reporting Standard (CRS) have not yet become operational, which limits the overall effectiveness of the system. In this regard, the variable was rated **medium**.

#### **(vii) Effectiveness of Domestic Inter Agency Information**

The assessment established that Zambia has a legal and institutional framework that facilitates for exchange of information including that which relates to legal structures. The country has established the NITFFIAR, the AML/CFT/CPF National Task Force of Senior Officials and AMLA as some of the fora through which information on legal persons can be exchanged. Competent Authorities have also signed MOUs and exchange information on investigation and prosecution of legal persons. There are also mechanisms that have been established to facilitate exchange of information between PACRA and other stakeholders. The variable was rated **high**.

#### **(viii) Effectiveness of Enforcement of Sanctions/Fines**

The assessment established that sanctions are provided in Section 373 of the Company's Act No. 10 of 2017. However, it was revealed that the sanctions were

not proportionate and dissuasive. At the time of the assessment the revision of the Companies Bill was awaiting assent by the Republican President. The variable was therefore rated **medium**.

#### **(ix) Quality of Control Against Opaque Structures**

##### **(i) Existence and Quality of BO Transparency Measures for Foreign Structures**

The Companies Act provides for measures for foreign registered legal structures that operate or own assets or shares. However, there are weaknesses with verification procedures that would enable access to BO information. The assessment established that PACRA had not established mechanisms with other countries that would facilitate exchange of information. However, using the diagonal exchange of information, PACRA has been able to exchange information with other jurisdictions. The variable was rated “**exists but low effectiveness**”.

##### **(ii) Quality of Bearer Share Controls**

Bearer shares have been prohibited in Zambia. This variable **does not apply**.

##### **(iii) Quality of Nominee Regulation**

The assessment established that the Companies Act has provided for effective regulation of nominees in Zambia. The Act provides for registration of nominees in line with the FATF requirements. Further, the Act provides for sanctions for nominees if the legal entity is used to facilitate criminal conduct. The assessment revealed that the sanctions were not effective. However, at the time of the assessment the law was being amended (awaiting Presidential assent) to provide for dissuasive and proportionate sanctions.

##### **(iv) Quality of BO Identification for Nominee Arrangements**

The Companies Act requires disclosure of BO information on nominees. The Companies Act provided for registration of nominee services in line with FATF requirements. However, it was revealed that the quality of BO information for nominee arrangements was not effective due to lack of verification systems. The variable was rated “**exists and mixed effectiveness**.”

**(v) Level of BO transparency for structures owned/controlled by trusts/foundations**

The assessment established that the Lands (Perpetual Succession) Act has no provisions that require disclosure of BO information related to Trusts. However, under Section 16 of the FIC Act, Trusts are required to disclose the identities of the settlor, trustee, protector (if any) and beneficiaries as part of BO identification for CDD by reporting entities. The variable was rated “**exists but medium effectiveness.**”

**(vi) Level of BO Transparency for Structures with Corporate Directors**

The legal framework in Zambia requires the identification of the natural person behind a legal person. In practice, BO identification for legal persons with corporate directors has proven difficult to obtain. Typologies have shown that structures with corporate directors have been misused to conceal true BO. The variable was therefore rated “**exists but low effectiveness.**”

**(vii) Level of Transparency on PEPs as BOs**

The Companies Act does not have specific provisions that require the disclosure and record keeping on PEP status for officers, directors, members, shareholders, and beneficial owners in the corporate registry. Article 263 of the Constitution requires all persons holding public office, including PEPs, to make assets declaration before assuming or leaving office as prescribed.

Further, reporting entities collect BO information on their customers in the process of conducting customer due diligence. This includes cross checking of BO information with global PEP lists. The variable was rated “**exists with mixed effectiveness.**”

**(viii) Quality of controls against deceptive entity names**

The assessment established that PACRA has developed guidelines and implemented systems for business name clearance to prevent deception. The variable was therefore rated “**exists and highly effective.**”

In light of the foregoing, the Strength of Mitigating Measures variable was rated **medium** with a score of **0.39**.

## 10.6 Overall Money Laundering Risk for Legal Persons and Arrangements

The overall ML risk for legal structures in Zambia was rated **high**. This was based on the overall ML threat being rated **high** and the ML vulnerability being rated **medium high**.

In relation to TF, the overall TF risk for legal structures in Zambia was rated **low**. This was based on the findings of the TF Risk Assessment in Chapter 12 of the report.

## **11.0 CHAPTER ELEVEN: ENVIRONMENTAL AND NATURAL RESOURCES CRIMES MONEY LAUNDERING RISK**

The first NRA as earlier alluded to did not consider Environmental and Natural Resources Crimes (ENRC) and their connection to ML in Zambia. Assessing ENRC will enable stakeholders adopt effective mitigation measures and align Zambia with international standards.

### **11.1 Objectives**

The objectives of the ENRC assessment were to:

- (i) Identify the main ENRC threats by establishing a typology of criminality in the country and identify the crimes extent and consequences, especially financial;
- (ii) Assess vulnerability to financial crime in the ENR sectors, based on the available environmental crime and related ML controls as well as such country context factors as the legal and regulatory framework; and
- (iii) Formalize an action plan to strengthen control of ENRC and related ML and reduce vulnerability to ML in natural resource sectors.

### **11.2 Overview of the Sector**

Environmental crimes, including illegal wildlife trafficking, deforestation, illegal mining, and pollution, pose significant threats to Zambia's biodiversity, economy, and sustainable development. These crimes are often linked to organized crime, corruption, and transnational networks.

The environmental sector in Zambia includes the following sub sectors:

- (i) Wildlife sector led by the Department of National Parks;
- (ii) Forestry led by the Forest Department;
- (iii) Waste/ pollution led by Zambia Environmental Management Agency;
- (iv) Fisheries led by the Fisheries Department; and
- (v) Extraction/mining led by the Ministry of Mines and Minerals Development.

### 11.3 International Conventions and Best Practices

Zambia is a signatory to several international conventions, including:

- (i) **Convention on International Trade in Endangered Species of Wildlife Flora and Fauna (CITES):** Regulating trade in endangered species;
- (ii) **UNODC Conventions:** Addressing transnational organized crime and corruption;
- (iii) **Basel Convention:** Managing hazardous waste. Aligning national strategies with these frameworks ensures effective combat of ENRC and associated financial crimes; and
- (iv) **Convention on Biodiversity (CBD):** Convention for the conservation and sustainable use of biological diversity.

### 11.4 Environmental Crimes Money Laundering Vulnerability

The ML vulnerability assessment for the ENR sectors considered variables as outlined in the subsequent sections. Risk scores were determined by analyzing the likelihood and impact of identified threats and vulnerabilities, considering Zambia's socio-economic and regulatory environment. The overall vulnerability of the ENRC and related ML was rated **medium high** with a score of **0.60**. The overall rating was based on the individual variables assessed below:

#### (i) Risk Understanding, Coordination, and Data Collection

This variable evaluated whether Zambia had designated a specific body responsible for coordinating and implementing a national strategy to combat various environmental crimes such as illegal logging, wildlife trafficking, and illicit fishing. It also considered whether Zambia collects and maintains comprehensive data and statistics on these crimes, and whether this information is used to understand the country's exposure to environmental crimes shaping its response strategies and mitigation measures.

The assessment established that Zambia had not designated a specific body responsible for coordinating and implementing a national strategy to combat

various environmental crimes such as illegal logging, wildlife trafficking, and illicit fishing. However, it was found that each category of ENRC in Zambia had a designated body to coordinate the development and implementation of crime-specific national strategies.

The assessment further established that Zambia had no holistic national strategy to combat ENRC. However, it was established that the existence of individual strategies was adequate to coordinate the development and implementation of crime-specific national strategies.

Notwithstanding the absence of a holistic national strategy, it was found that Zambia has an interagency framework (NITFFIAR) with subcommittees that oversee the formulation, coordination, and implementation of AML policies and strategies. Furthermore, the country has a National Anti-Poaching Task Force which also coordinates various institutions in combating illegal wildlife trade and the prevention of the illegal off take. In addition, the country has developed the AML/CFT/CPF national policy which is the basis for the national approach to combating financial crimes in Zambia including ENRC. The assessment established that Zambia has mechanisms that enable exchange of information among competent authorities.

In relation to the collection and maintenance of data and statistics, relevant stakeholders had not developed and implemented systematic processes for the collection and maintenance of data and statistics. Further, the assessment established that there was lack of uniform protocols and integrated data systems thereby weakening the ability of the sector to effectively assess and control the origin and legality of environmental resources. This is compounded by the lack of consistent tools for data collection and the absence of a centralized database.

The assessment considered whether there were some other stakeholders that had adopted protocols that measure crime-related data. The assessment established that the Zambia Revenue Authority (ZRA) is one competent authority that had implemented protocols that allow the institution to provide statistics related to border smuggling. However, most stakeholders have not yet adopted consistent protocols.

In view of the foregoing, the variable was rated **medium** with a score **of 0.5**.

## **(ii) Definition of Environmental and Natural Resource Sector Breaches**

This variable assessed Zambia's effectiveness in identifying and defining environmental and natural resource offenses in legal or regulatory instruments to enable it to combat the forms of criminal activities to which it is exposed and to mobilise international cooperation.

The assessment found that Zambia as a signatory to major international conventions had domesticated into national law, comprehensive legislative frameworks governing ENRC, including the Zambia Wildlife Act No 14 of 2015, Forests Act No 4 of 2015, Mines and Minerals Development Act No 11 of 2011 and Environmental Management Act No 12 of 2011. These legislative frameworks address most environmental and natural resources crimes.

However, gaps exist in the wildlife and fisheries legislative framework in the coverage of certain non-indigenous species, such as abalone. The Mines and Minerals Development Act also lacked provisions for the seizure and disposal of assets, thereby limiting the enforcement of forfeiture actions against offenders. Notwithstanding the gaps identified in these pieces of legislation, the FPOCA can be used to bridge the gap. It should be noted that during the period under review the Mines and Minerals Development Act 2011 was repealed and replaced by the Minerals Regulation Commission Act No 14 of 2024 which refers to the Forfeiture of Proceeds of Crime Act No 19 of 2010.

In light of the foregoing, the variable was assessed as **high** with a score of **0.7**.

## **(iii) Administrative or Civil Sanctions**

This variable evaluated whether Zambia's legal and regulatory framework includes civil and administrative penalties for breaches of environmental or related laws. It considered whether penalties are proportionate, effective, and capable of deterring violations, and whether they were enforced in practice. Additionally, it examined whether legal entities (such as companies) can be held liable when criminal penalties cannot be applied to them.

The assessment found that administrative or civil sanctions were present in the Forest Act No 4 of 2015 under Section 100 and Environmental Management Act of 2011 under Section 132. It was noted that most of the fines under the Forest Act

were not proportionate to the crimes and not capable of deterring violations. It was further observed that the provision for administrative or civil sanctions was absent from the other ENRC laws. Recourse for penalties for corporate bodies lies with the application of other pieces of legislation such as the Forfeiture of Proceeds of Crime Act No. 19 of 2010 (FPOCA).

In light of the above analysis, the variable was rated **medium low** with a score of **0.4**.

#### **(iv) Criminal Sanctions**

This variable examined whether Zambia's legal framework included proportionate and dissuasive criminal sanctions for breaches of environmental and natural resource laws. It considered whether penalties were effectively applied, and whether serious environmental crimes were recognized as predicate offenses to ML. It also assessed the enforcement of the sanctions in practice.

The assessment established that the legal framework for ENRC in Zambia has criminal sanctions. Save for the Wildlife Act, the assessment established that the legislative frameworks governing the other ENRC lack criminal sanctions that are dissuasive and proportionate to the value of the natural resource exploited. The assessment established that ENRC is considered as a predicate offence to ML.

In view of the foregoing, the variable was rated **medium** with a score of **0.5**.

#### **(v) Environmental and Natural Resource Sector Asset Recovery and Management**

This variable examined whether Zambia had effective legal and institutional frameworks to deprive offenders of profits from environmental and natural resource crimes. Whether Zambia had comprehensive laws to seize, freeze, and confiscate criminal proceeds and instrumentalities, along with systems to manage these assets. It also evaluated the extent to which these measures were practically implemented, including their integration into broader AML efforts.

The assessment established that asset forfeiture in Zambia is regulated by the FPOCA. This piece of legislation applies to ENRC as well. Further, specific provisions in the ENRC sector were found in some pieces of legislation.

The Zambia Wildlife Act, specifically Sections 140 and 145 outline provisions for the forfeiture of items related to wildlife offences. Section 140 addresses the disposal of animals and goods seized under the Act, while Section 145 deals with forfeiture upon conviction. These provisions allow for the confiscation of items used in or obtained through illegal wildlife activities.

Section 83 of the Forests Act deals with forfeiture and restoration of property. A major weakness was Section 100 of the Forest Act which allows for payment of fines without going to court. The maximum set limit is 50,000 penalty units which may not be dissuasive. Further, it is possible that this section could be misapplied to cases of a more serious nature. The Zambia Wildlife Act returns the natural resource to the State unless the Court accepts an application from the acquitted person. The assessment noted deficiencies in the enforcement of the forfeiture process in the forest sector.

Further, Zambia's asset forfeiture framework is robust, allowing for value-based judgments against offenders under forfeiture and money laundering laws (the Prohibition and Prevention of Money Laundering Act). Law enforcement agencies have powers to seize assets suspected of being linked to crimes, with seized funds directed into forfeiture accounts.

However, the assessment revealed that the management of frozen and seized assets is fragmented. Despite there not being a dedicated office for the management of frozen or seized assets, there is an administrative committee of survey responsible for managing seized and forfeited assets. Furthermore, there is no centralized database in place for these assets. Assets are often stored in unsuitable conditions, leading to depreciation. The mining and forestry sectors are particularly affected by the lack of storage facilities for minerals and forest products respectively.

Based on the foregoing, this variable was assessed to be **medium** with a score of **0.5**.

## **(vi) Control of Corruption**

This variable assessed whether there were effective processes in place to identify, investigate, and prosecute corruption, particularly as it relates to the environmental and natural resource sectors. It also examines whether Zambia has created an environment that deters individuals from engaging in corrupt practices.

The assessment found that Zambia has strong anti-corruption mechanisms, including the Anti-Corruption Act No. 3 of 2012, the Anti-Corruption Commission and a national policy on anti-corruption. Further, integrity committees have been established in various government ministries and institutions to deter and prevent corruption. During the period under review, the Anti-Corruption Commission had 383 cases related to Environmental crimes were under investigation.

Civil society was also found to play a crucial role in raising corruption-related concerns in these sectors. However, the assessment established that while there are mechanisms for licensing, there were reported cases on the abuse of awarding of licenses in the various sectors.

Therefore, based on the foregoing the variable was rated **high** with a score **of 0.7**.

## **(vii) Domestic Cooperation**

This variable assessed whether, when required, Zambia's relevant agencies cooperate effectively and coordinate domestically with each other, at the policy and operational levels, to combat environmental and natural resource sector crimes and related ML.

The assessment found that Zambia has a robust framework for inter-agency cooperation to combat environmental crimes. Regular information-sharing meetings are held among agencies, including investigators, regulators, customs, and tax authorities; and Joint investigations and operations are conducted under structures like Joint Operational Committees (JOCs) and the National Anti-Poaching Task Force.

In light of this, the variable was rated **high** with a score **of 0.7**.

### **(viii) Non-Profit Organizations**

This variable assessed the extent to which NPOs have participated in the fight against ENV crimes, including how the information they obtain supports the development of intelligence on ENRC violations and is being used in the different phases of legal proceedings.

The assessment established that NPOs played a multifaceted role in combating ENRC. Many NPOs provide financial and logistical support to enforcement authorities. The assessment revealed that NPOs actively participated in environmental preservation but are excluded from managing seized resources. NPOs have been found to be a good source of Intelligence which has to some extent contributed to prosecution of cases, particularly wildlife crimes. The assessment found that there was limited involvement in trans-shipment fraud detection and the absence of comprehensive data on their contributions.

In light of the foregoing, the variable was rated **medium** with a score of **0.5**.

### **(ix) International Cooperation**

This variable assessed whether Zambia actively and effectively renders and requests international cooperation relating to environmental and natural resource crimes, as well as related money laundering, associated predicate offenses, related financial crime investigations and prosecutions, and asset forfeiture matters. It considered international cooperation not just by law enforcement authorities but also by supervisory, customs, and other relevant authorities, such as international and regional networks, engaged in both ENRC and related ML cases.

The assessment found that Zambia actively participated in international efforts to combat environmental crimes by ratifying relevant international conventions into domestic law. The assessment found that Zambia had broad legal frameworks to enable both formal and informal international assistance such as international and regional conventions and mutual legal assistance treaties.

Agreements exist with all neighboring countries, facilitating joint investigations and information sharing. Such agreements include the Lusaka Agreement Task Force on Co-operative Enforcement Operations (LATF), Trans-frontier

Conservation Areas (TFCA) Treaties and MoU under the SADC Protocol on Wildlife and Law Enforcement, the Convention on International Trade on Endangered Flora and Fauna (CITES) and the Sub Region Counter Wildlife Crime Platform which includes Malawi, Mozambique, Tanzania and Zambia among others. Notwithstanding the foregoing, countries have not harmonized laws to criminalize some products under ENR. Further, the assessment revealed that regional data sharing mechanisms to detect illicit transactions in mineral supply chains were inadequate. In addition, it was found that Zambia had not adopted and implemented standards that integrate its supply chains to international supply chains (ESG, Human rights due diligence, OECD responsible sourcing standards).

Based on the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(x) Use of Experts**

This variable assessed the degree to which agencies involved in ENRC and money-laundering casework have access to experts to support investigations and prosecutions.

The assessment revealed that experts on forensic science and crime scene management were limited in the natural resource sector. Though expertise in environmental crime investigations was limited, forensic labs and crime scene investigators are accessible to the sector (expertise is outsourced). The assessment established that most agencies do not have adequate financial resources to engage experts, which impedes advanced investigations, particularly in forest crimes.

Based on the foregoing, the variable was rated **medium low** with a score of **0.4**.

#### **(xi) Public Awareness and Private Sector Involvement**

This variable evaluated how well the public, local communities, and private sector actors, particularly those in key resource sectors, understand and engage with environmental and natural resource crime issues in Zambia. It considered their role in managing resources, detecting crimes, and contributing to oversight efforts. It also emphasized the importance of raising awareness among freight and trade-related industries, particularly due to Zambia's function as a transit hub.

The assessment found that public awareness and private sector engagement in combating environmental and natural resources crimes are carried out by various stakeholders including NGOs, LEAs and the FIC. The country has in place a holistic Community Based Natural Resources Management Policy 2023, and the Wildlife Act further provides for community engagement through the community based natural resources management programme. The Ministry of Tourism during the period under review, run a campaign against illegal wildlife trade called “It's Not a Game”. On average the sector was conducting 327 community sensitisation meetings annually.

The assessment established that environmental and natural resource sector crime prosecutions are made public. However, there are limited outreach campaigns and other sensitization actions on the impact of internal and external ENRC targeting reporting entities and companies in key resource sectors in the country. Domestic environmental and natural resource sector crime laws were not well known and understood by the public including those in the freight forwarding industry. The assessment further established that endangered species lists were not readily available.

Based on the foregoing, the variable was rated **very high** with a score of **0.8**.

## **(xii) Capacity of Customs and Border Authorities**

This variable assessed whether the customs and border forces have effectively participated in the fight against ENRC. It also assessed whether the customs and border forces' analytical capabilities are being used for the detection, analysis, and dissemination of; financial intelligence, information on these crimes, related ML or TF, and consequently support the investigation of these crimes, including asset forfeiture investigations.

The assessment established that there are inadequate law enforcement officers (customs and border forces) at points of entry and exit (ports, airports, routes) that are aware of and trained (for example, in CITES requirements and the identification of specimens) in detecting and responding to environmental and natural resource crimes. Further, it was established that the customs and border officials do not have the capacity to extend border controls over the whole territory of the country.

The assessment revealed that customs and border forces at some points of entry and exit have been equipped with some tools and materials such as scanners to detect and respond to environmental and natural resource crimes. However, some points of entry lack adequate tools and resources. Border staff have been trained in detecting natural resource contraband and are equipped with the power to inspect, seize and confiscate consignments suspected of containing illegal ENRC products. Further, it was established that custom officials work with relevant authorities to verify that cargo is properly documented and appropriate sanctions are applied for nonconformity. It was revealed that customs and border forces participate in multidisciplinary law enforcement operations targeting environmental and natural resource crimes through frameworks such as JOCs and Interagency subcommittees.

However, there were not sufficient measures in place to prevent commercial carriers (airlines, shipping lines, trucking companies) from being used for trafficking purposes.

Based on the foregoing, the variable was rated **medium high** with a score of **0.6**.

### **(xiii) Incentives and Protection for Reporting**

This variable assessed whether Zambia had mechanisms or programmes in place to protect witnesses and whistleblowers of environmental crimes. It also evaluated whether these protections effectively encouraged individuals to report violations and assist investigations or prosecutions without fear of retaliation or harm.

The assessment established that witness and whistleblower protection mechanisms are in place. Legal frameworks support protection and partial sentence reductions for whistleblowers. However, the government had not allocated adequate financial resources to ensure the protection of witnesses and whistleblowers of environmental violations, their relatives and other persons close to them. Further, competent authorities in collaboration with cooperating partners had set up a specific system for allowances, incentives and the reimbursement of expenses for witnesses and whistleblowers.

Based on the foregoing, the variable was rated **high** with a score of **0.7**.

#### **(xiv) Effective Use of Information**

This variable assessed Zambia's effectiveness in collecting, analyzing, and sharing information on ENRC. It focused on the use of such information to guide policy, support frontline operations, and develop plans to disrupt criminal activities, including organized crime and corruption, beyond FIC's input.

Zambia has established frameworks for intelligence gathering and sharing. The frameworks allow agencies and their actors to exchange information formally and informally and use covert techniques that are permissible in the laws and regulations. However, it was revealed that data-sharing mechanisms with foreign jurisdictions on ENRC were but not as effective and feedback on requests were not provided in a timely manner. There are platforms used to exchange information such as LATF and law enforcement platforms under TFCA structures.

The assessment revealed that the DNPW was the only agency in the natural resource sector that had a unit dedicated to collecting information and investigating wildlife fauna and flora in protected areas. Law enforcement are offered specialised training in intelligence gathering and investigations techniques. During the period under review, four joint trainings were hosted under the umbrella of the National Anti-Poaching Task Force.

This Unit was found to be mandated to apply to the wildlife sector and not the general natural resource sector.

Based on the foregoing, the variable was rated **medium high** with a score of **0.6**.

#### **(xv) Capacity of Preventative Authorities**

The variable assessed the legal functions and the means allocated to bodies to prevent ENRC. The response to organized environmental and natural resource sector crime requires that the funding of preventative bodies is appropriate to their missions, and that they work together on multiple levels to prevent environmental and natural resource sector crimes.

The assessment revealed that the designated bodies were responsible for disclosing and publishing information about the sector in a timely manner.

The assessment established that there was insufficient mandatory oversight systems and safeguards procedures did not exist to monitor the effective implementation of preventive measures. It was found that designated bodies are not sufficiently resourced logistically in respect to the vastness of the territory of their jurisdiction (and other geographic factors) and commensurately with the ENRC threats.

The assessment established that preventative authorities do not have special equipment/systems such as drones, X-ray machines and surveillance systems to detect and prevent ENRC. It was found that scanners manned by Zambia Airports Corporation staff exist at airports but there were instances where integrity by staff on the utilization of the scanners had been compromised.

It was revealed that designated bodies have been given the authority to manage cases and coordinate their actions with other authorities to combat ENRC. It was also established that most staff of these bodies have received specific expertise to effectively perform their missions in ENR matters.

The assessment found that preventative authorities have involved communities in protection of their environment using initiatives such as community forest management, public hearings for decision making in their locality and community resource boards.

In light of the foregoing, the variable was rated **medium low** with a score of **0.4**.

#### **(xvi) Suspicious Transaction Reports (STRs)**

This variable assessed the quantity and quality of STRs and related information submitted to FIC to aid in detecting environmental crimes and associated money laundering. It also evaluated whether FIC effectively supported reporting entities through accurate guidance, feedback, and awareness-raising on related risks.

The assessment found that only seventeen (17) STRs related to ENRC had been filed during the period under review. The FIC analyzed and disseminated seven (7) intelligence reports to LEAs for investigations. The assessment further revealed that the FIC had continued to carry out awareness sessions with reporting entities on various topics including typologies around these crimes. The FIC had not issued guidelines for detecting ML and TF linked to environmental crimes during the

period under review. However, at the time of the assessment, the FIC in collaboration with other cooperating partners were conducting a typology on Illegal Wildlife Trade (IWT) for the purpose of guiding the private sector on trends and methods related to IWT. During the period under review, there was no information filed with the FIC from non-reporting entities like freight companies bordering on ENRC.

The FIC disseminates information on existing and emerging trends in environmental crimes to the public annually.

In light of the foregoing, the variable was rated **medium high** with a score of **0.6**.

### **(xvii) Capacity of FIU**

This variable assessed whether the analytical capabilities of the FIC were used for the detection, analysis, and dissemination of financial intelligence and information on ENRC and related ML or TF, and consequently support the investigation of these crimes, including asset forfeiture investigations.

The assessment revealed that the FIC has specialized skills that can be used to detect, analyse and disseminate financial intelligence and information on ENRC to LEAs and related ML/TF. The STRs analysed by the FIC are corroborated with other information from different sources to detect and trace criminal proceeds related to ENRC. The assessment revealed that the quality of financial intelligence reports disseminated to LEAs in relation to ENRC has improved over time. However, the FIC staff complement needs to be improved and the budget enhanced.

In the period under review, the FIC analyzed and disseminated intelligence reports to LEAs related to ENRC where evidence had been gathered and subsequently, seizure of criminal proceeds.

#### **Case 15: The Sena Plus Investments**

*In the period under review, the FIC disseminated financial intelligence bordering on environmental crime to LEAs for investigation. LEAs successfully investigated the case and was accordingly prosecuted by the NPA. The Court ordered the permanent forfeiture of a vast network of assets used in an illegal logging operation. The forfeited logs included over 1,900 logs (specifically 1,899 Mopane logs, plus various Mukwa and Mupapa logs). The logs were worth USD 1 million. Other assets seized included industrial assets and real estate.*

In light of the foregoing, the variable was rated **very high** with a score of **0.8**.

### **(xviii) Capacity of Criminal Law Enforcement**

This variable assessed whether investigators of ENRC, money laundering offenses and associated predicate offenses are effective in conducting investigations.

The assessment established that provisions of the Zambia Wildlife Act and the Forests Act mandated authorized officers to detect and prevent the commission of wildlife and forestry offences. It was also found that operatives from law enforcement agencies have been recognized as authorized officers for the wildlife and forestry sector.

The assessment revealed that the designated bodies have not been effectively resourced, logistically and in respect of human capital. The geographical areas that they have been empowered to oversee far exceed the human capacity and the logistics assigned to them.

It was revealed that DNPW had a dedicated Intelligence and Investigations Unit which over time had received capacity building on investigating ENRC. However, the assessment established that there were limited skills when it came to cases associated with money flows. The other agencies in ENR sector were found not to have investigative capacity. Further, it was established that the designated authorities in the ENRC collaborated with other relevant agencies to fill the gaps in capacity.

The assessment found that DNPW and the Forestry Department had involved the communities in law enforcement by the incorporation of community scouts, honorary forest officers and honorary wildlife officers. These officers are employed either by the community through boards or are private citizens that have the power to work with designated bodies to bring perpetrators to book.

In view of the foregoing, the variable was rated **medium** with a score of **0.5**.

### **(xix) Legal Protection for Prosecutors/Judges**

This variable assessed whether prosecutors and judges act with integrity and are protected from undue influence. This variable should be read together with module 2 variables 8 and 10 under ML vulnerability assessment.

it was established that salaries for Judicial staff and Prosecutors are not commensurate with responsibilities and risks involved in ENRC.

Furthermore, it was found that the country has established the Judicial Complaint Commission, where aggrieved staff are encouraged to report complaints to. In addition, competent authorities in the ENR sector have developed mechanisms within their institutions where complaints against investigators and prosecutors could be reported to. In extreme cases where there is evidence of corruption, such matters are reported to the Anti-Corruption Commission.

The assessment further found that though there was no specific anticorruption plan for ENRC, each institution had in place integrity committees and Zambia has developed and implemented a national anti-corruption policy which includes an action plan. It was found that though prosecutors do not lead investigations, they collaborate with investigators to gather additional information to support the prosecution.

The assessment found that FIC does not disseminate intelligence to prosecutors for action, they are disseminated to LEAs. The type of FIU in Zambia is an administrative type and therefore, does not have powers to investigate and prosecute cases. The FIC's role is to disseminate intelligence reports to the LEAs for investigations. The DPP has an obligation to handle a file from the LEAs, however, he/she reserves the right to prosecute the matter or not.

Legal protection for prosecutors does exist under the Whistleblowers Act.

Based on the foregoing analysis, the variable was rated **medium-high** with a score of **0.6**.

## **(xx) Beneficial Ownership and Directorship**

The variable was assessed under the Banking Sector as **medium high** with a score of **0.6** (Source: Banking Sector).

## **(xxi) Legal Protection for Law Enforcement and Customs**

This variable assessed whether law enforcement officers, including special natural resource crime units and customs officials, act with integrity and are protected from undue influence.

The Wildlife Act of 2015 under Section 125 states “An authorised officer shall not be held liable for damages or otherwise for an act done or omitted to be done in good faith in the performance of the duties and exercise of authorised powers of the authorised officer under this Act”. A similar provision is found under Section 7 of the Forest Act of 2015 and Section 19 of the Environmental Management Act of 2011.

It was established that the salaries for the law enforcement officers were not commensurate with responsibilities and risks involved, this contrasted with that of customs officials. This may make them susceptible to unethical conduct.

The monitoring and oversight of the conduct and performance of officials in ENRC is conducted by management of the officials.

The assessment established that there is no comprehensive integrity or anti-corruption action plan relevant to staff involved in ENRC work. However, individual institutions had their own integrity committees.

The assessment found that whistleblowing mechanisms are operational through the Public Interest Disclosure (Protection of Whistleblowers) Act No. 4 of 2010. The mechanism provides a framework for reporting conduct adverse to the public interest in both the public and private sectors.

The law offers protection for ENRC investigators in the course of their work although generally there is lack of awareness among members of the public that ENRC investigators have such protection. In addition, customs officers have further immunity provisions within the Customs Act.

Based on the foregoing analysis, the variable was rated **medium high** with a score of **0.6**.

#### **(xxii) Capacity of Prosecutors and Judiciary**

This variable assessed whether prosecutors and judges of ENRC and money-laundering offenses and associated predicate offenses are effective in conducting prosecutions and judgments.

The assessment found that Zambia did not have a court dedicated to the adjudication of ENRC. However, the country has established the Economic and Financial Crimes Court (EFCC) through the enactment of Economic and Financial Crimes (Division of Court) Order S.I. No. 5 of 2022. Due to the high financial value of natural resource products, some ENRC cases are adjudicated by the EFCC. The EFCC has enhanced knowledge of Judges on financial crimes.

The assessment established that despite not having a dedicated resource for the prosecution of ENRC, NPA had designated the Taxation and Financial Crimes Department (TFCD) to handle ENRC. The designation of TFCD was noted to be a strength in the prosecution of ENRC. However, this has not yet been rolled out to the rest of the country due to inadequate financial and human resources. Prosecutors and Judges have undertaken specialised training that has enhanced their knowledge on AML matters. However, there was inadequate training on the specificities of ENRC.

In view of the foregoing, the variable was rated **medium high** with a score **of 0.6**.

#### **(xxiii) Sector Regulatory Governance, Management, and Transparency**

This variable assessed the existence and effectiveness of the implementation of best practices to ensure transparent and accountable sector regulatory governance and management by responsible authorities.

The assessment found that the ENR sector has placed clear licensing and regulatory processes in place in all agencies through legislative frameworks.

The legal framework was established to have a sufficiently clear and transparent description of the licensing process (including awards and transfers of

licenses/concessions). However, the assessment found that there were no sufficient details in the licensing process. There is no framework to ensure transparency in decisions made by officials at all stages of the licensing process.

The assessment established that the sector's legal framework on licensing is also enhanced by the Business Regulatory Act No. 3 of 2014, Section 4 and 5, which provides the principles and conditions upon which frameworks must set license terms and conditions. The said Act<sup>3</sup> goes further and instructs regulatory agencies to respond to applications for licensing as early as possible but not later than within the prescribed period after the application is lodged and, if no response is given on the last day of the prescribed period, the application shall be deemed to be approved and the licence, permit, certificate or authorisation shall be deemed to have been duly issued. This prompted designated bodies to promptly deal with applications avoiding the automatic approval of applications that do not meet their industry requirements.

The enforceable provisions of ENRC law or regulation do not outline the technical and financial criteria on which licensing decisions are based. It was found that the public faces some challenges in effective and timely access to this information. The provisions of law do not obligate clearly accountable officials to ensure effective public access to information and data related to licensing awards; licensing transfers; and consortium members. Further, the public does not have effective and timely access to this information.

All institutions have systems in place to grant the public access to information. There are also mechanisms in place for transparency in financial relationships with State Owned Enterprises. The assessment established that provisions of law obligate clearly accountable officials to publicly disclose information related to state involvement in natural resource sectors. The public is able to access government ownership details and licensing data in a timely and effective manner.

In view of the foregoing, the variable was rated **very high** with a score of **0.8**.

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<sup>3</sup> Section 5(f)

**11.5 Environmental Crimes Money Laundering Threat**

**(i) Overview of Key Environmental Crime ML Threats**

ENRC in Zambia is linked to Illicit financial flows, corruption and organized crime networks.

The assessment identified the following as the key ML threats in the ENRC sector:

**(ii) Key Threats**

- (a) **Wildlife Trafficking:** poaching and illegal wildlife trade of species such as elephant ivory, rhino horns and pangolins;
- (b) **Illegal Logging:** Smuggling of timber and depletion of forests;
- (c) **Illegal Mining:** Unlicensed extraction of minerals and illegal trade such as gold and gemstones including other critical minerals which are key for the energy transition; and
- (d) **Pollution-related Offences:** Disposal of hazardous waste without permits.

Table 36 below shows the level of threat of the five (5) environmental sectors in Zambia:

**Table 36: Level of ML threat (ENRC)**

Environmental Sector	Likelihood of Crime Occurring	Impact of Crime	Overall Threat
<b>Wildlife Crime</b>	Likely	Major	High
<b>Forestry Crimes</b>	Almost Certain	Major	Extreme
<b>Fisheries Crime</b>	Almost Certain	Moderate	High
<b>Waste / Pollution</b>	Likely	Moderate	Medium
<b>Extraction / Mining Crimes</b>	Almost Certain	Severe	Extreme

The analysis showed that the overall threat for forest and extraction crimes was extreme with the likelihood of the crimes happening determined to be almost certain, while the impact on the environment, ecosystem and economy were major for forest and severe for extraction/mining crimes. Fisheries and wildlife crimes had a high overall threat with a likelihood of happening *almost certain*

and *likely*, respectively. The impact of these crimes is major on wildlife while on the fisheries the impact was considered moderate.

During the period under review, the estimated value of the seizures / confiscations for the environmental sectors was as follows:

Wildlife ZMW 645,514,300; Forestry ZMW 6,642,674.28; Fisheries ZMW12,885,262 and for the Extractive/mining ZMW7,164,000. There were no seizures/confiscations recorded under waste/pollution related crimes. The assessment revealed that there were no ML cases associated with ENRC in the period under review.

The assessment established that other predicate offences linked to Environmental Crimes include Corrupt Practices and Tax Crimes (tax evasion and customs fraud).

#### **11.6 Summary of Threats and Risk Score**

Risk scores indicate wildlife, forestry and mining crimes as high-risk areas due to their profitability and involvement in transnational networks.

## **12.0 CHAPTER TWELVE: TERRORISM FINANCING RISK ASSESSMENT**

### **12.1 Objectives**

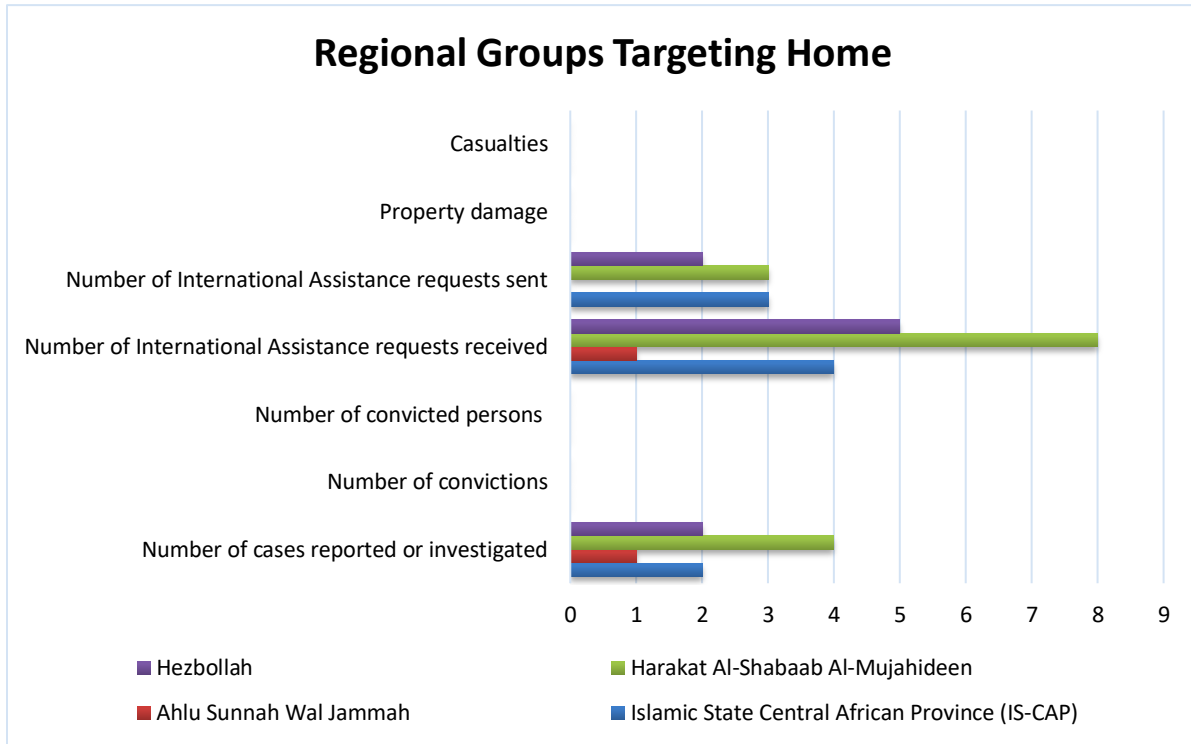
The objectives of the Terrorism Financing Risk Assessment were to:

- (i) Identify the terrorism financing threats based on the terrorism threat;
- (ii) Identify the direction of the terrorism financing financial flows, as well as the sources and channels;
- (iii) Assess vulnerability, based on the available terrorism financing controls and country context factors; and
- (iv) Prioritize actions that will improve the Country's ability to combat terrorism financing.

### **12.2 Terrorism Threat Analysis**

The terrorism threat analysis examines data about organizations and individuals who pose a terrorist threat to the jurisdiction. The purpose is to establish the potential threat posed by domestic, regional and global organizations and individuals. The assessment established that there are no known terrorist groups operating in Zambia. However, terrorist groups in the region have been known to be targeting the country with some of their operatives intercepted. Figure 17 below highlights terrorism activities in the region recorded in the period under review.

**Figure 17: Regional Terrorist Groups**



The assessment revealed that Zambia faced threats from three groups in the region, namely, the Islamic State -Central African Province (ISCAP), Ahlu Sunnah Wal Jammah (ASWJ) and Harakat Al-Shabaab Al-Mujahideen (AS).

During the period under review, the highest number of international assistance requests sent and received related to Ahlu Sunnah Wal Jammah as highlighted in Figure 18 above. This indicated that the group had significant activities in Zambia owing to the large communities with nationalities from high-risk jurisdictions, some of whom have been hosted as refugees, or granted investor, resident or employment permits. Further, Ahlu Sunnah Wal Jammah accounts for the highest number of cases investigated relating to terrorism with the lowest number being ASWJ.

During the period under review, Zambia had not recorded any terrorist attack and investigations related to suspected terrorism cases did not result in convictions of terrorist suspects. Nevertheless, two cases were prosecuted under the Anti-Terrorism and Non-Proliferation Act related to the gassing incidents the country experienced in 2019 and 2020. However, both cases did not meet the

threshold to be considered as terrorism, hence, in one case, the suspect was acquitted while in the other a nolle prosequi was entered by the State.

**(i) Sources of Terrorism Threats**

The following are the terrorist groups that pose a threat to Zambia:

**(a) Islamic State – Central African Province (ISCAP)**

ISCAP, aka Madina at Tauheed Wau Mujahedeen, generated its income from dealings in minerals, timber, charcoal, cannabis and cash crops. The income for the group is reportedly generated from Democratic Republic of Congo, South Africa, and the Islamic State Core. The expected major trends for the group in Zambia may include forming cells, fundraising and using the country to plan and launch operations. The resurgence of the Islamic State group in some parts of Syria may entail support from its affiliates in the region to finance their operations within Syria. Further, the push by Arab Nations, such as Turkiye and Lebanon, for the return of Syrian refugees back to Syria, may push more Syrians to seek refuge in Zambia, a situation that sympathisers to the Islamic State may take advantage of.

**(b) Ahlu Sunnah Wah Jammah (ASWJ)**

ASWJ has been generating income from robbing banks, piracy, drug trafficking, kidnappings for ransom, illegal mining of gold and rubies, and the selling of ivory and timber. The income is reportedly generated from Mozambique, Democratic Republic of Congo, South Africa, and the Islamic State Core. The expected major trends for the group in Zambia may include forming cells, fundraising and using the country to plan and launch operations as well as to rest and recuperate.

**(c) Harakat Al-Shabaab Al-Mujahedeen (AS)**

AS is reported to be generating income from extortion, charcoal trading, tax collection, ransom, legal and illegal business, donations, imports; trading in Improvised Explosive Devices components, weapons, sugar, rice, dried lemon, flour, cooking oil, wildlife, poaching, diaspora remittances; trade from ports, transit points, borders; tax extortion across trade routes; brick making, and filling stations. The income is reportedly generated from Somalia, Kenya, and South Africa. The group is estimated to generate

between USD 100 – 150 million on an annual basis. The expected major trends for the group in Zambia may include forming cells and fundraising.

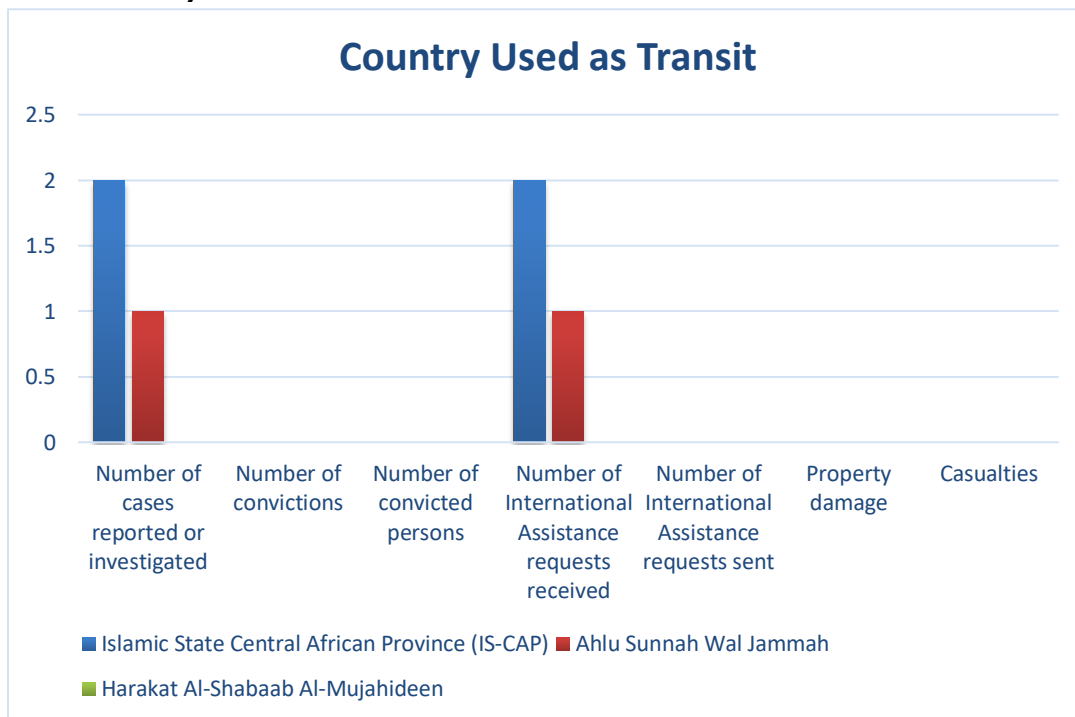
**(d) Hezbollah, Hamas and Other Groups**

Despite not presenting a direct threat to Zambia, it risks being used as a safe haven and fundraising hub by Hezbollah, Hamas and other groups. Zambia hosts refugees from various jurisdictions including high risk countries which may be used for fundraising purposes for the groups. Further, foreign nationals may be issued with employment, resident or investor permits and may be compelled to send money to such groups to assist the war effort.

**(ii) Terrorist Groups - Transit Points**

According to the cases reported during the period under review, the assessment found that the country has been used as a transit point for funds as shown in Figure 18 below:

**Figure 18: Country used as Transit Point**



The assessment revealed that terrorist groups whose operatives were intercepted in Zambia have been using the country to transit funds, recuperate operatives

and as a staging area. During the period under review, three (3) cases were investigated relating to IS-CAP and ASWJ following international assistance requests received. The cases involved operatives who were believed to be moving funds generated from another jurisdiction through Zambia. The investigations revealed that the suspects disguised their status in Zambia by obtaining fake national identification to present themselves as Zambians. Whereas, others had taken advantage of the refugee process in the country to present themselves as refugees basing their arguments on the 'Country of Origin' Information.

In light of the foregoing, the terrorism threat was assessed as **medium low**.

### **12.3 Overall Assessment of Terrorist Financing Risk**

The overall assessment of the terrorist financing risk involves the examination of the terrorism financing threat and terrorism financing vulnerabilities that the country is exposed to.

The assessment revealed that the TF risk for Zambia was rated **low** based on TF threat and TF vulnerability being **low**.

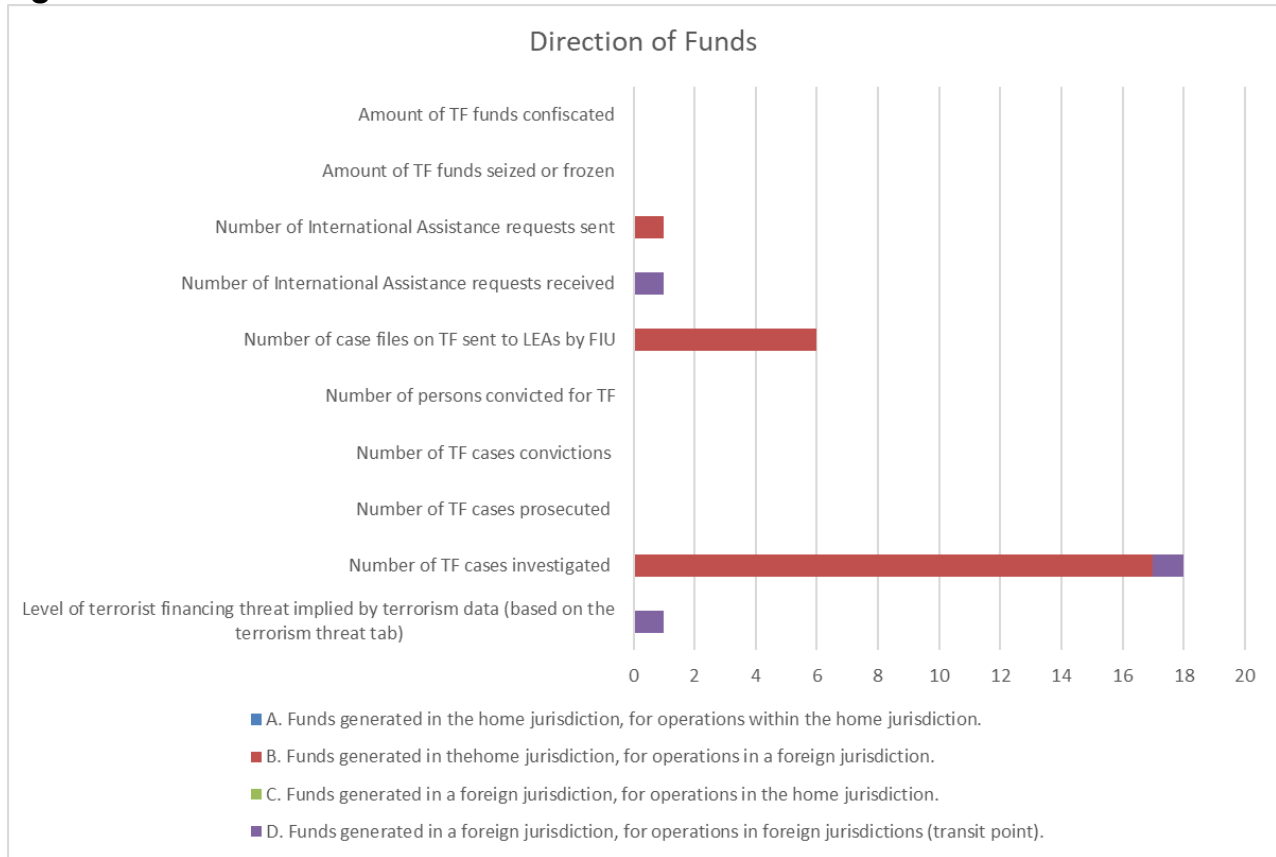
### **12.4 Terrorist Financing Threat Analysis**

The terrorist financing threat analysis examines the financial flows related to terrorism financing. The analysis is based on enforcement data and information from typologies and examines the direction of TF funds, their sources and the channels that are used to move the funds.

#### **(i) Direction of Funds**

This section highlights the direction of funds which may be intended for terrorism financing through inward or outward flows. Figure 19 below illustrates the direction of funds based on the cases the country has investigated during the period under review.

**Figure 19: Direction of Funds**



From the Figure above, the terrorist financing threat in Zambia, relating to funds generated and used domestically, was assessed as **low** as there were no cases of terrorist financing in Zambia. Further, no attempted financing operations for terrorist attacks in Zambia have been reported or intercepted. In addition, suspected TF cases investigated have not resulted in any TF convictions. Furthermore, Law Enforcement and Intelligence Agencies indicated that there are no active domestic terrorist groups in Zambia, and foreign terrorist groups do not maintain operational bases in the country.

With regard to funds generated in Zambia for operations in foreign jurisdictions, this was also assessed as **low**. The assessment revealed that seventeen (17) suspected TF cases were investigated by LEAs. The cases investigated involved funds being transferred to the Middle East. However, none of these cases resulted in prosecutions or convictions. Further, the investigations spontaneously instituted by LEAs revealed that funds were being moved physically and in some cases through the Hawala System to the horn of Africa via east Africa as well as to neighbouring countries. The assessment established that movement of funds

between Zambia and neighboring countries was done physically by individuals who were involved in business mostly along the border or those involved in illegitimate vices such as drug trafficking.

In relation to funds generated in a foreign jurisdiction for operations in foreign jurisdictions, three cases were investigated during the period under review following three international requests for assistance (figure 20). However, no TF-related funds were seized or frozen. Meanwhile, the operatives intercepted in the country were deported to their respective jurisdictions for prosecution.

The assessment further revealed that there was no evidence of funds coming from foreign jurisdictions for operations in the country as terrorist groups neither had operational bases in the country nor did they sponsor lone wolves or operations planned in Zambia for foreign jurisdictions.

The assessment established that the threat of terrorism financing from Zambians still remained **very low to non-existent**. Further, it was observed that the TF threat continues to emanate from immigrants and settlers from high-risk regions such as the Middle East and East Africa. Individuals from these countries seclude themselves by building high wall fences in a bid to reduce their visibility to the public. Investigations and monitoring activities continue to indicate that most of these individuals engage in legitimate businesses in Zambia, with a few running parallel hawala systems alongside their legitimate businesses.

The secluded and secretive nature of these communities continues to be aided by the informal and cash-based nature of the economy, mobile money transactions prevalence; hawala systems; use of stores as fronts and transacting below the threshold when transacting in the formal financial sector to avoid scrutiny of their financial transactions and dealings and use of relatives to visit and collect funds. As such, these persons could continue to utilise these loopholes to support terrorist organisations or activities they are sympathetic to in foreign and in their own jurisdictions.

In view of the foregoing, the variable was rated **medium low**.

## **(ii) Sources of Funds**

Funds may be used for the purpose of terrorism financing and could be sourced from both legitimate and illegitimate sources as follows;

### **(a) Legitimate Sources**

#### **(i) Non-Profit Organizations (NPOs)**

According to the Sectoral NPO TF Risk assessment conducted in 2024, Zambia has about four thousand five hundred and ninety-eight (4,598) NPOs that meet the FATF definition of NPOs for raising and disbursing of funds, out of a Universe of seventeen thousand four hundred and forty-five (17,445). The assessment concluded that terrorist elements such as ISCAP, ASWJ and Al-Shabaab could abuse the NPO sector to source or benefit funds through the following:

- diversion of funds to support foreign terrorist fighters in the region;
- abuse of NPO programs to benefit ASWJ, Al-Shabaab and ADF in order to attract potential recruits and further their radicalisation agendas;
- affiliating NPOs with terrorist organisations; and
- creating sham NPOs using the Companies Act to raise and disburse funds undetected.

The assessment revealed that there were no cases of NPOs abuse by terrorists in Zambia. In view of the foregoing, the variable was assessed to be **low**.

#### **(ii) Import/Export**

The assessment established that the increase of certain business ventures, such as filling stations that involve the importation of fuel posed a potential TF threat. However, the legal framework including stringent supervisory processes by the Zambia Revenue Authority mitigated this threat. The country has not recorded any cases of cash couriers across borders or ex-filtration of funds or other assets to outside jurisdictions for terrorist purposes.

In view of the foregoing, variable was assessed to be **low**.

### **(iii) Construction**

The assessment established that the construction sector in Zambia poses a TF threat due to the growing number of individuals hailing from high-risk jurisdictions that own businesses in the sector. During the period under review, the FIC disseminated eleven (11) intelligence reports on suspicion of TF with regards to companies that engage in construction. In addition, five (5) international requests were received during the period under review. Further, the country requested for information in relation to two (2) cases in the same period. However, investigations in relation to the intelligence reports and the information requested did not establish any TF related activity in the sector. Notwithstanding the above, the country has put in place measures such as vetting, security checks and constant monitoring to mitigate the threat.

In view of the foregoing, the variable was assessed to be **low**.

### **(iv) Agriculture**

Zambia has had a thriving agriculture sector which has been steadily growing and expanding with the involvement of all sectors from commercial farmers, large, medium and small-scale farmers. The assessment of this sector has shown that it is not vulnerable and does not pose a threat for TF.

In view of the foregoing, the variable was assessed to be **low**.

### **(v) Donations**

The assessment revealed that most donations are made to legally registered entities such as charitable organisations and NPOs and in some cases directly to government departments as relief especially to Disaster Management and Mitigation Unit (DMMU), Ministry of Health, Ministry of Agriculture, Ministry of Community Development and Ministry of Education. TF typologies have shown that donations are mostly abused for TF purposes. However, it was established that there was no direct link of donations to TF in Zambia.

In view of the foregoing, the TF threat with regards to donations was assessed to be **low**.

## **(vi) Mining**

The discovery of gold and other precious minerals in the period under review has led to an influx of foreign nationals engaging in illegal mining activities across the country some of whom hail from high-risk jurisdictions. However, no TF case had been reported or investigated in this area.

In view of the foregoing, the TF threat in relation to mining was assessed as **medium low**.

## **(b) Illegitimate (Criminal) Sources**

Zambia has recorded cases of natural resource theft, drug trafficking, smuggling, extortion, corruption, tax evasion, fraud, illegal wildlife trade and kidnapping among other proceeds generating crimes. The assessment revealed that none have been found to have any linkages to terrorism and terrorism financing. Notably, there were 104 cases of human trafficking / smuggling recorded. Most of the cases involved citizens from Asia and the horn of Africa enroute to the Southern African region. In view of the foregoing, the TF threat from illegitimate sources was assessed as **low**.

## **(c) Channels of Funds**

The variable assessed the channels used or suspected to be used to move terrorist funds. The assessment identified the channels through which funds generated for TF activities are moved from Zambia to other jurisdictions and vice versa. Zambia is a cash-based economy with most transactions remitted using both formal and informal value transfer mechanisms. The following channels were identified during the assessment:

### **(i) Banking System**

During the period under review, the FIC received seventeen (17) Suspicious Transaction Reports highlighting that funds generated from Zambia were transferred to the Middle East for suspected TF activities. However, the intelligence disseminated did not result in prosecutions or convictions related to TF. In view of the foregoing, the use of the banking system for TF was assessed as **low**.

## **(ii) Alternative Remittance Systems**

The assessment revealed that, despite the existence of alternative remittance systems such as Hawala and cash couriers among others, there were no recorded cases of TF using these channels. In view of the foregoing, the TF threat in the alternative remittance systems was assessed as **low**.

## **(iii) Non-Profit Organisation (NPOs)**

This channel was analysed in the NPO sectoral TF risk assessment which concluded that the TF threat was **low**.

## **(iv) Virtual Assets**

The assessment revealed that there were no cases investigated or prosecuted in relation to TF using VA. Whilst the FIC has received STRs related to suspected TF, there have been no cases recorded in the sector to indicate that virtual assets are being used for TF. In view of the foregoing, the TF threat was assessed as **low**.

## **(v) Money or Value Transfer Services**

The assessment revealed that, despite the existence of MVTs, there were no recorded cases of TF using these channels. In view of the foregoing, the use of MVTs for TF threat was assessed as **low**.

## **Overall TF Threat Assessment Rating**

The overall TF threat assessment following consideration of the above variables was found to be **low**.

## **12.5 Terrorist Financing Vulnerabilities**

TF vulnerability assessment analyses the strength of the defense mechanisms of the country or alternatively the strength of the controls that have been adopted to detect and counter TF. The following variables were considered:

**(i) Quality of Legislation**

**(a) Availability and Effectiveness of TF Crime Definition in Penal Code or Other Relevant Law(s)**

The TF crime definition as provided for in the Anti-Terrorism and Non-Proliferation Act no. 6 of 2018 is effective as it is consistent with the FATF Glossary of Definitions as well as the TF Convention, 1999. Therefore, the negative impact on vulnerability of the TF crime definition was assessed as **low**.

**(b) Availability and Effectiveness of Laws and Regulations Regarding Targeted Financial Sanctions Regimes to Comply with UN Security Council Resolutions Relating to TF**

Zambia passed Statutory Instrument No. 1 of 2024 to compliment the Anti-Terrorism Act for the implementation of targeted financial sanctions (TFS) regimes to comply with UN Security Council resolutions relating to TF. Further, Zambia has issued guidelines to reporting entities on the implementation of TFS. Therefore, the negative impact on vulnerability of the availability and effectiveness of laws and regulations was assessed as **low**.

**(c) Other Relevant Laws which, through their Existence or Lack Thereof, May Create TF Vulnerabilities**

Zambia has in place a number of laws that address TF vulnerabilities in the country which include PPLMA, BFSa, Insurance Act, Penal Code Act, FPOCA, FIC Act, Anti-Corruption Act, Customs and Excise Act, Securities Act, Zambia Security Intelligence Service Act, Zambia Wildlife Act, Immigration and Deportation Act, Anti-Human Trafficking Act, Mutual Legal Assistance in Criminal Matters Act and Extradition Act. Therefore, the negative impact on vulnerability of the other relevant laws was assessed as **low**.

**(ii) Quality of Intelligence**

**(a) Quality of Intelligence Gathering and Processing (E.G., Intelligence Office/Unit Specialized in Terrorism and its Financial Aspect)**

The NATC is the lead agency in the fight against Terrorism and Terrorism Financing. The quality of Intelligence gathered and processed by NATC and other competent authorities such as FIC, ZSIS is of good quality and timely. Competent authorities in the value chain have used intelligence to disrupt suspected TF activities. The NATC has strategic linkages with both local and international partners to aid the expedient processing of intelligence information. Therefore, the negative impact on the vulnerability of quality of intelligence gathering and processing was assessed as **low**.

**(b) Effectiveness of Domestic Cooperation on CTF**

Competent Authorities collaborate in the fight against terrorism and TF. One of the ways is through inter-agency framework which comprises all LEAs, security wings and other quasi government institutions and some supervisory authorities. Competent Authorities exchange strategic, tactical and operational information bordering on CTF. Other methods through which the competent authorities collaborate include joint operations. Therefore, the negative impact on the vulnerability of the effectiveness of domestic cooperation on CTF was assessed as **low**.

**(iii) Effectiveness of TF-Related Suspicious Transaction Reporting, Monitoring and Analysis**

**(a) Number of STR Related to TF Analysis**

During the period under review, the FIC received 22 STRs bordering on suspected TF and disseminated twenty-two (22) intelligence reports to NATC for investigations. Following the investigations by NATC, the evidence was insufficient to warrant prosecutions. Therefore, this component was assessed to be **low**.

**(b) Number of Cases Forwarded to LEAs/Investigation Related to TF Cases**

During the period under review, 23 intelligence reports were reported to NATC. Of the 23 intelligence reports, 22 were disseminated by the FIC. Following the investigations by NATC, the evidence was insufficient to warrant prosecutions. Therefore, this component was assessed to be **low**.

**(c) Capacity and Commitment of Reporting Entities to Comply with UN Security Council Screening Requirements**

Reporting entities in the financial sector have internal mechanisms to comply with the UN Security Council screening requirements in addition to Guidelines issued to them by the NATC and the FIC. However, the DNFBPs sector have low capacity and commitment to comply with the UN Security Council screening requirements. Therefore, the negative impact on the vulnerability of the capacity and commitment of reporting institutions to comply with UN Security Council screening requirements was assessed as **medium low**.

**(iv) Adequacy of Resources**

**(a) Adequacy of Human Resources for CTF (incl. Specialized Investigators, FIU and Intelligence Officers, Prosecutors, and Judges)**

Zambia has dedicated officers on CFT. In particular, the agency responsible for investigating terrorism and TF matters, NATC has dedicated and skillful human resources. However, the number of officers at NATC is inadequate to deal with emerging threats of terrorism and TF. The approved establishment is 128 officers, however, only 43 have been employed. Further, in other institutions such as the FIC, Judiciary, Zambia Police and NPA, there are still inadequate human resources to handle terrorism and TF matters. Further, the human resources in Zambia handling terrorism/TF have limited capacity and may require specialised training on CTF matters in the AML/CFT value chain. Therefore, the negative impact on the vulnerability of the adequacy of human resources for CTF assessed as **medium**.

**(b) Adequacy of the Financial Resources Allocated to Terrorism Financing Investigations and Broader Research on Terrorism Financing within a Country Context**

The assessment established that the Government of Zambia provided funding to NATC and other competent authorities who handle terrorism and TF matters. However, the assessment revealed that financial resources allocated to these institutions annually are not adequate to effectively dispense terrorism and TF matters. Further, resources at times are not released timely. Therefore, the negative impact on the vulnerability of the adequacy of the financial resources allocated to TF investigations and broader research on TF was assessed as **medium low**.

**(v) Effectiveness of International Cooperation**

**(a) Legal Basis for International Cooperation Related to TF (e.g., Legislation and Treaties)**

Zambia ratified the TF convention, 1999 on 7<sup>th</sup> April 2017 and is bound by the treaties of the UN as a member country. In addition, the country is a member of ESAAMLG which enables it keep up with new trends in AML/CFTP. The country enacted the Ratification of International Agreements Act to allow it to domesticate international treaties and has the Mutual Legal Assistance in Criminal Matters Act to govern international cooperation on various issues including TF. Therefore, the negative impact on the vulnerability of the legal basis for international cooperation related to TF was assessed as **low**.

**(b) Number of Mutual Legal Assistance Requests Received and Timeliness of Response on TF Cases**

During the period under review, the country did not receive any mutual legal assistance requests on TF cases. Therefore, the negative impact on the vulnerability of the number of mutual legal assistance requests received and timeliness of response was assessed as **low**.

**(c) Number of Mutual Legal Requests made on TF or Terrorism**

During the period under review, the country did not make any mutual legal requests on TF or terrorism cases. Therefore, the negative impact on the vulnerability of the number of mutual legal requests made on TF or terrorism was assessed as **low**.

**(d) Informal Cooperation on TF Cases (e.g., Intelligence to Intelligence, Police to Police, FIU to FIU, Supervisor to Supervisor)**

The country has several mechanisms which facilitate for informal cooperation with other jurisdictions that assist in investigations and prosecutions of a number of offences including TF. Channels such as Interpol and Egmont Group were used to exchange information. Therefore, the negative impact on the vulnerability of the informal cooperation on TF cases was assessed as **low**.

**(vi) Awareness and Commitment to Fight TF**

**(a) Political Commitment to Fight TF and Terrorism**

Zambia has operationalised the NATC, a dedicated body to coordinate the fight against TF and terrorism. Further, Government has developed and implemented the national AML/CFTP policy to coordinate the fight against terrorism and TF. The country has also developed the National CTF strategy focusing on best mechanisms to fight TF and terrorism. In addition, there has been consistent funding to the NATC and other competent authorities. However, the NATC is not an autonomous body hence lacks administrative independence. Therefore, the negative impact on the vulnerability of the political commitment to fight TF and terrorism was assessed as **low**.

**(b) Awareness and Commitment among the Policy Makers, Law Enforcement, FIU and Intelligence Community to Fight TF**

Zambia has designated the AMLA as the highest policy making body on AML and the Anti-Terrorism and Non-Proliferation Act establishes the National Anti-Terrorism Committee as the highest policy making body on TF. Further, the country has also established the National Task Force of Senior Officials and on AML/CFT/CPF matters and the NITFFIAR to augment the fight against TF. In addition, Competent

Authorities in the AML/CFT/CPF value chain have developed awareness programmes to fight TF and terrorism. Therefore, the negative impact on the vulnerability of the awareness and commitment among the policy makers, law enforcement, FIU and intelligence community to fight TF was assessed as **low**.

#### **(vii) Geographic Factors**

This variable assessed whether there are geographic factors that may facilitate TF, and increase/decrease Zambia's vulnerability to TF.

Zambia is a land linked country sharing borders with eight neighboring countries and it has long and porous borders that present a weakness for unregulated entry and exit of inimical elements. Further, it has been noted that natural barriers such as water bodies are being exploited for entry and exit.

The country's proximity to active terrorism theatres in the SADC region poses a challenge. Mineral and natural resources tend to attract foreign nationals that may be agents of or sympathisers to terrorist elements. Inadequate monitoring on both designated and undesignated entry and exist points make it easy for terrorist elements who are reported to mostly use undesignated routes.

Zambian authorities consider the volatile geo-political situation in the SADC region, the Great Lakes and East African regions as possible avenues for the spread of terrorism and TF into the country. Conflicts that have re-emerged within the region and outside such as those in the horn of Africa, Southern and Middle East Africa which are experiencing wars have positioned Zambia as a preferred country of asylum due to the peace that subsists in the country. Foreign nationals domiciled in Zambia may be compelled to provide funds to their relatives and associates in those troubled countries. Such funds may include those meant for TF. Notwithstanding the foregoing, the consistent mechanisms by LEAs and other security wings have negated exploitation of geographical factors that would facilitate TF. Therefore, the vulnerability of geographic factors was assessed to be **medium**.

#### **(viii) Demographic Factors**

This variable assessed whether they are demographic factors that may facilitate TF and increase or decrease Zambia's vulnerability to TF. According

to statistics from the Immigration Department, a total of 67, 078 employment permits had been issued in the period under review with the peak of employment permits being issued in 2021. The permits issued in 2021 alone registered a sharp rise that almost doubled the permits issued in 2020. However, there has been a steady decline in the number of permits issued with 2023 recording only 41% of those issued in 2021 indicating a 59% reduction of permits issued between 2021 and 2023 as indicated in the Figure below:

**Figure 20: Employment Permits issued between 2019 – 2023**



In addition, a total of 101,000 refugees had been recorded by the Commission of refugees in the Ministry of Home Affairs and Internal Security as at 2023. Further, LEAs have indicated cases where foreign nationals have had illegal access to country identity documentation (Green National Registration Card and passports) which they use to conduct their business in disguise. This has been predominantly noticed amongst foreign nationals from East Africa. However, the incidences of exploiting these demographic factors for TF purposes in the period under review were low. In view of the foregoing, the vulnerability as a result of demographic factors was assessed to be **medium low**.

The overall TF vulnerability assessment, following consideration of the above variables, was found to be **low**.

### **13.0 CHAPTER THIRTEEN: PROLIFERATION FINANCING RISK ASSESSMENT**

The proliferation of weapons of mass destruction (WMD) and PF continue to pose threats to the international security and global financial system. The UNSC and international community, including the FATF, remain highly concerned about PF risks, particularly those posed by the DPRK and the Islamic Republic of Iran (Iran). Combating Proliferation Financing has been identified as a priority for Zambia and the crime has been criminalised through the Anti-Terrorism and Non-Proliferation Act, No. 6 of 2018 administered by the NATC. Zambia is committed to comply with the relevant United UNSCRs.

In 2020, the FATF, revised its international standards concerning PF. In the context of FATF Recommendation 1 (revised in October 2020 together with its interpretive note), PF risk refers strictly to the potential breach, non-implementation or evasion of the targeted financial sanctions (TFS) obligations referred to in FATF Recommendations. This limits the assessment of risk exposure to the UNSCRs concerning the DPRK and Iran. However, taking reference from the FATF's June 2021 "Guidance on Proliferation Financing Risk Assessment and Mitigation" (2021 FATF Guidance), "PF" refers to the raising, moving or making available of funds, other assets or other economic resources, or financing, in whole or in part, to individuals or entities for the purposes of WMD proliferation, including the proliferation of their means of delivery or related materials (including both dual-use technology and dual-use goods for non-legitimate purposes).

In light of this, Zambia's PF NRA covers the risks of breach, non-implementation and evasion of all UNSC sanctions imposed on the DPRK and Iran, including activity-based sanctions. This scope is broader than the scope of the FATF Standards (as at 2024) which only cover UNSC sanctions (such as asset freezing measures) imposed on UNSC designated individuals and entities. Zambia decided to adopt this wider approach as it would provide a fuller understanding of its PF risks, taking into account Zambia 's context. Therefore, in undertaking this assessment, the Royal United Services Institute (RUSI) methodology was used. The assessment involved review and refinement of existing materials on PF and PF risks, which included literature review to identify evolving trends in the nature and scope of sanctions evasions relevant to PF and recent UNSCR 1718 Panel of Experts (PoE) reports.

### 13.1 Objectives

The PF NRA seeks to identify and understand the PF threats and vulnerabilities in Zambia. The specific objectives include:

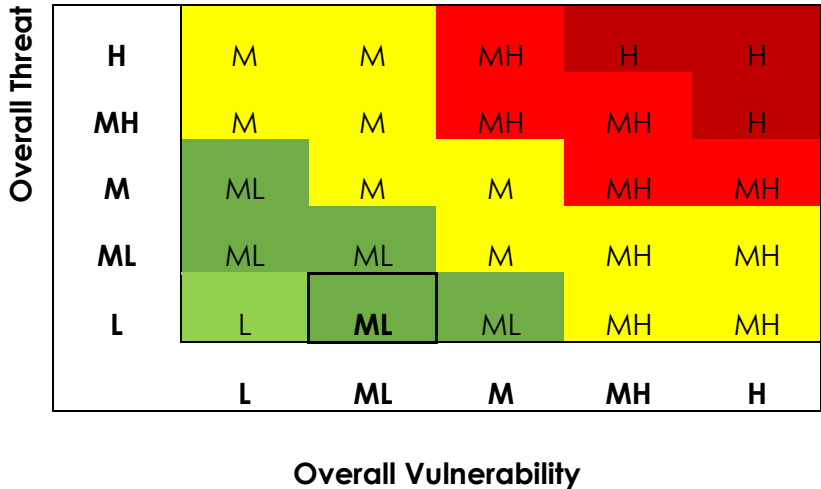
- (i) To identify the weaknesses and gaps in the country's ability to counter Proliferation Financing;
- (ii) To Identify and address key vulnerabilities in the Financial Service Providers (FSPs), DNFBPs and VASPs sectors that may be exploited by proliferators to finance activities relating to WMD or to evade TFS; and
- (iii) To support development of appropriate strategies and recommend measures in mitigating the risks and vulnerabilities identified to strengthen the country's overall CPF framework.

### 13.2 Overall Assessment of Proliferation Financing Risk

The overall PF risk was determined by the assessment of the PF threat and vulnerability. The PF threat aimed at determining the direction of funds, sources, and channels used for PF while PF vulnerability aimed at determining the strength of CPF framework within the country.

The overall PF threat assessment was found to be **low** and the PF vulnerability was rated **medium low**, resulting into the overall **PF risk** rating in Zambia to be **medium low** as can be seen in figure 21 below:

**Figure 21: Overall PF Risk**



## **Proliferation Financing Threat Assessment**

In assessing PF threat, information from a range of sources such as, PF investigations, proliferation investigations, PF-related suspicious transaction reports, PF-related intelligence, PF-related requests for international cooperation through formal and informal channels, and international typologies (including those featured in the UNSC PoE Reports) were considered.

The assessment revealed that there were no PF related suspicious transaction reports or cases investigated or prosecuted related to PF or proliferation in the period under review. The following variables were assessed:

### **(i) Misuse of Legal Persons**

Typologies have indicated that legal persons (companies) have been used by proliferators to evade sanctions imposed on DPRK and Iran. The PoE reports and the 2021 FATF Guidance established that both the DPRK and Iran frequently use front companies, shell companies, joint ventures and complex and opaque ownership structures to circumvent the DPRK-related and Iran-related UNSCRs.

The assessment found that following Zambia's discovery of mineral deposits such as gold, manganese, sugilite and emeralds, there had been a number of mining companies that have been set up processing precious stones and metals which require the use of dual use materials<sup>4</sup> that may be exploited by proliferators for their inimical intentions.

The assessment revealed that in the period under review, Zambia had not experienced the misuse of legal persons for PF purposes (such as use of Zambia operating companies including reporting entities to trade with sanctioned entities, setting up of separate legal persons to ringfence sanctioned activities, use of shell companies set up by foreign beneficial owners with little or no substantial business operations in Zambia).

Notwithstanding the foregoing, due to weaknesses currently existing on BO verification systems at PACRA, there is a likelihood that companies could be established for PF purposes by proliferators.

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<sup>4</sup> Such as; Cyanide, Sulfuric Acid, Ammonium Nitrate based compounds, Ferrous Sulfate, Activated Carbon, and Mercury among others

In light of the foregoing, the threat for this variable was assessed to be **low**.

## **(ii) Ship-to-Ship Transfers**

As observed by the UNSC PoE and the 2021 FATF Guidance, UNSC designated individuals and entities use the maritime sector to deliver components and materials for use in WMD or their delivery systems, and generate revenue which can provide the underlying financing for a WMD programme. Tactics adopted include ship-to-ship transfers and false shipping documentation to conceal a shipment's origin or destination.

During the period under review, Zambia had not experienced the use of the maritime sector for PF purposes. Further, being a land locked country, Zambia may not be a preferred country to be exploited by designated individuals and entities that use the maritime sector to deliver components and materials for use in WMD. Despite the foregoing, Zambia's vessels operating in international waters may be abused by proliferators. In light of the foregoing, the threat for this variable was assessed to be **low**.

## **(iii) Movement of Dual-Use Goods**

This part assesses the movement of dual use goods (DUGs) which include software and technology that can be used for military and civilian applications.

As noted by the UNSC PoE, the DPRK has continued to seek dual-use components and technology needed for its WMD programme. It has also been noted that Iran maintains an extensive overseas network of procurement agents, front companies, intermediaries and suppliers to obtain sensitive dual-use items. These procurement networks use a variety of methods to evade export controls and sanctions including obscuring the end-users through a layered approach, falsifying end-use documentation and shipment details, routing shipments through several jurisdictions, and using deceptive tactics to access the international financial system.

In Zambia's context, given Zambia's status of not being a transshipment and transit hub, the country may not be preferred as a gateway to move DUGs for eventual use in WMD-related programmes or activities. Further, competent authorities such as the ZRA and NATC have not come across cases where

measures to control the movement of DUGs have been circumvented. Therefore, the threat for movement of dual use goods was assessed to be **low**.

#### **(iv) Export of Luxury Goods**

The export of luxury goods<sup>5</sup> to the DPRK is a longstanding area of concern for the UNSC. The UNSC PoE on the DPRK has noted that the partial reopening of the DPRK's borders in 2023 (after the COVID19 pandemic) had facilitated the reappearance in retail trade of a large variety of foreign goods including some that could be considered luxury goods. The Panel further noted in 2024 increased transshipments of luxury goods to the DPRK through third countries, and recommended that entities which are in the business of exporting luxury goods should be more vigilant when arranging shipments to the region. Zambia is not a major global producer of luxury items and does no exports of such goods to DPRK or Iran. In this regard, the threat assessment for export of luxury goods was found to be **low**.

#### **(v) Misuse of Virtual Assets**

The UNSC PoE in 2023 on the DPRK indicated that it continued to investigate the violations of the UNSC financial sanctions by DPRK cyber actors, and noted that illicitly-obtained virtual assets are protected by both the anonymity of the blockchain and the intentional obfuscation of the passage of assets through cryptocurrency exchanges. Further, the FATF observed in 2023 that the DPRK's illicit virtual assets-related activities (including ransomware attacks and sanctions evasion) for PF purposes had enabled an unprecedented number of recent launches of ballistic missiles (including intercontinental ballistic missiles).

In the context of Zambia, the assessment found that Zambia has not had incidences where VASPs or virtual assets activities have been used for PF or proliferation purposes. Notwithstanding this finding, there are VASPs registered in foreign jurisdictions operating in Zambia which have not been identified. This raises the threat as there is no information on the actors and the direction of movement of funds. In light of the foregoing, the variable was assessed as **medium low**.

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<sup>5</sup> Such as; high end cosmetics, watches, liquor and vehicles

Based on the foregoing analysis of various variables, the overall PF threat was rated **low**.

### **13.3 Sector Vulnerabilities to Proliferation Financing**

#### **(i) Commercial Banks**

The banking sector in Zambia continues to be vulnerable to PF abuse. However, the sector is alert to PF typologies and sanctions evasion tactics that could be employed by the DPRK and Iran.

The assessment revealed that generally, banks in Zambia have a fair understanding of PF and Proliferation. Banks have developed and implemented CPF measures which include due diligence performed by correspondent banks to facilitate international trade. They have also developed systems to implement Targeted Financial Sanctions (TFS) against PF.

However, the assessment established that banks continue to face challenges in ascertaining the use of DUGs for illicit purposes. Staff may not necessarily possess the relevant technical qualifications and knowledge across a wide range of goods to allow them to understand the varying applications of DUGs. Further, the descriptions of goods in trade documents may be worded in such a way that does not enable easy identification of DUGs.

Therefore, the vulnerability assessment for banks was found to be **medium low**.

#### **(ii) Virtual Asset Service Providers (VASPs)**

In 2019, the FATF Standards were extended to virtual assets and VASPs. However, while the situation is improving, as of June 2024, there continues to be a lack of implementation of the relevant FATF Standards globally, which means that virtual assets and VASPs remain vulnerable to misuse for PF purposes. Virtual assets could be misused for nefarious purposes because of the pseudonymity (or in some cases, anonymity) they offer, convenience they provide as an instantaneous value transfer medium, and cross-border nature of virtual asset transactions.

The UNSC PoE on the DPRK has noted that DPRK cyber actors had engaged in trading multiple forms of virtual assets (including alternative coins), with the DPRK

specifically targeting anonymity-enhanced cryptocurrencies in order to provide additional layers of security and to frustrate traceability. In Zambia's context, VASPs are vulnerable to misuse for PF purposes. Despite VASPs being designated as reporting entities under the FIC Act, the country lacks a robust licensing or registration framework for the VASPs due to gaps in the legal framework. Therefore, this variable was assessed as **medium low**.

### **(iii) Money or Value Transfers (MVTs) and Remittance Agents (Cross-border Money Transfer Service Providers)**

Globally, as banks become increasingly aware of PF risks and sanctions evasion methods, the banking channel has become more challenging for proliferators to access. Proliferators tend to use remittance agents to gain access to the international financial system. Remittance agents tend to offer cross-border remittance services which are more cost-effective and efficient as compared to those offered by banks.

The assessment established that MVTs and Remittance agents in Zambia have low level of PF understanding as well as requirements for implementation of TFS. It was established that controls and procedures developed by the MVTs and Remittance agents are not for CPF purposes. Further, the assessment revealed that cross border remittances in the sector were conducted by foreign nationals. This increases the likelihood of remittance agents being used for PF purposes. However, there were no cases where MVTs or remittance agents have been used for PF purposes.

Therefore, the variable was assessed to be **low**.

### **(iv) Maritime Insurers**

The UNSC PoE on the DPRK continued to note as late as 2024 various tactics used within the maritime sector to evade sanctions.

To this end, Zambian Insurance companies may find themselves providing insurance to vessels involved in illicit ship-to-ship transfer activities. The knowledge of the insurance sector on PF matters was found to be low. During the period under review, there were no STRs reported, cases or typologies to suggest that

insurers have been exploited for PF purposes. In this regard, this variable was rated **low**.

#### **(v) Trust and Company Service Providers (TCSPs)**

As noted by the UNSC PoE on the DPRK, TCSPs present a key vulnerability in the implementation of financial sanctions, allowing the DPRK to easily create front companies offshore, where the DPRK leverages the assistance of non DPRK nationals and uses the companies to open and maintain bank accounts to move monies worldwide. Further, the FATF in its 2021 FATF Guidance noted that “company service providers involved in the creation or management of companies and other legal persons or legal arrangements, in particular, face transaction and service risks.” UNSC-designated individuals and entities may attempt to involve professionals such as TCSPs in the setup of companies to conduct proliferation and PF activities to provide respectability and legitimacy to such activities.

Most of the TCSPs services in Zambia are provided by accountants and lawyers. The assessment revealed that during the period under review, competent authorities did not record any cases of TCSPs being involved in the setting up of companies to facilitate PF. The vulnerability assessment for this variable was found to be **low**.

#### **(vi) Dealers in Precious Stones and Metals (DPSM)**

The 2021 FATF Guidance noted that DPSMs provide an alternative method for UNSC-designated individuals and entities to covertly move financial resources across international borders with UNSC-designated individuals and entities engaging such dealers to transport precious stones and metals such as gold and diamond to obtain foreign exchanges to finance their transactions.

In the period under review, there were no cases where DPSMs had been involved in the PF or WMD programme. However, existence of illegal mining in some provinces presents some threats that the sector may be used. Notwithstanding designation of DPSMs as reporting entities in the FIC Act, the sector is not properly regulated and the knowledge for PF is low. The Vulnerability assessment for the DPSM was assessed as **medium low**.

## **(vii) Lawyers and Accountants**

FATF Guidance notes that lawyers and accountants could be involved in the creation or management of companies and any other legal persons or legal arrangements as a strategy by proliferators to obscure the fact that funds and other assets are being ultimately made available to UNSC-designated individuals and entities. The assessment revealed that Zambia had no cases of misuse of Lawyers and Accountants for purposes of PF. Therefore, this variable was assessed to be **low**.

## **(viii) Real Estate Agents and Casinos**

The assessment established that there were no PF investigations, proliferation investigations, PF-related suspicious transaction reports, PF-related intelligence involving real estate agents or casinos in the period under review. Notwithstanding the foregoing, the assessment established that the knowledge on PF, Proliferation and implementation of TFS by real estate agents and casinos was low. In view of the foregoing, the vulnerability for the real estate agents and casinos was assessed as **low**. Based on the foregoing analysis of various variables, the overall PF vulnerability was rated **medium low**.

## **13.4 Measures to Counter Proliferation Financing**

Zambia has implemented a comprehensive sanction regime and a complementary CPF framework to combat proliferation financing activities. Further, the country is a signatory to a number of multilateral non-proliferation, disarmament and export control treaties. The legal framework in place to counter PF includes the following:

- (i) Anti-Terrorism and Non-Proliferation Act No. 6 of 2018;
- (ii) Financial Intelligence Centre Act No. 46 of 2010;
- (iii) Anti-Terrorism and Non-Proliferation (Implementation of United Nations Security Council Resolutions) Regulations, 202
- (iv) Control of Goods Act Cap. 421 of the Laws of Zambia;
- (v) Customs and Excise Act Cap 322 of the Laws of Zambia;
- (vi) Ionising Radiation Protection Act No. 16 of 2005; and
- (vii) Environmental Management Act No.12 of 2011.

## APPENDIX I: IMPLEMENTATION PLAN

### IMPLEMENTATION PLANS OF THE ML/TF/PF NATIONAL RISK ASSESSMENT 2026 – 2028

No	Deficiencies/Weaknesses	Action Required	Responsible Institutions	Year 1	Year 2	Year 3
1.	Ineffective maintenance of AML/CFT/CPF statistics	Development or acquisition of software	FIC	Development of software	Maintenance and enhancements	Maintenance and enhancements
		Population of national AML/CFT/CPF database	FIC	Updating of statistics	Updating of statistics	Updating of statistics
		Competent authorities to develop systems and AML/CFT/CPF statistics in line with the ESAAMLG requirements	All competent authorities	Updating of statistics	Updating of statistics	Updating of statistics
2.	Not all competent authorities conduct parallel financial investigations	Review of the legal framework to determine whether LEAs are empowered to conduct	FIC LEAs	Review and amend legal framework	Implementation	Implementation

		parallel financial investigations				
		Capacitate LEAs in conducting parallel financial investigations	FIC AMLIU	Identification of providers of technical assistance	Implementation	Implementation
3.	Weak mechanisms in the detection of cross-border movements of cash and BNIs	Strengthen the legal framework on cross border movement of cash and BNIs	ZRA	Review the legislation	Implementation	Implementation
			DEC	Acquire sniffer dogs for the detection of cash	Implementation	Implementation
			FIC		Implementation	Implementation
					Increase signage on cash declarations in border areas	Implementation
			Conduct training for border personnel	Implementation	Implementation	
	Human resource integrity failures	ACC Immigration, ZRA DEC ZPS ZNAC Airline staff	Review legal framework on lifestyle audits	Implementation	Implementation	
4.	Weak mechanisms in the detection of cross-border	Acquire systems for the detection of precious	Minerals Regulation Commission	Acquire and install systems	Implementation	Implementation

	movements of precious stones and metals	stones and metals at entry/exit points	Zambia National Airports Corporation  ZRA			
5.	Lack of reliable identification infrastructure	Complete the implementation of Integrated National Registration Information System (INRIS)	Ministry of Home Affairs and Internal Security  Smart Zambia	Implementation	Implementation	Implementation
			Financial Sector Supervisors  FIC  Smart Zambia	Implement the Electronic centralized Know Your Customer (KYC) database	Integrate banking systems with INRIS	Integrate banking systems with INRIS
		Enhance sanctions for illegal acquisition of identification documents (NRC, passport) including those issuing / facilitating	Ministry of Home Affairs (Immigration Department)  Department of National Registration, Passports and Citizenship	Review and amend the law	Implementation	Implementation

			Ministry of Justice			
6.	Inadequate capacity and resources for judicial processes	Enhance technological and office infrastructure for the Judiciary	Ministry of Justice Ministry of Finance Judiciary of Zambia	Ongoing	Ongoing	Ongoing
		Conduct specialized training in new technologies and financial crimes including TF and PF	FIC Judiciary AMLIU NATC	Identification of technical assistance providers	Implementation	Implementation
7.	Weaknesses with Beneficial Ownership information	Update the Companies registry with BO information	PACRA	Update	Update	Update
		Develop mechanisms for verification of BO information	PACRA Reporting entities FIC	Benchmarking with other jurisdictions on verification of BO information	Implement verification mechanisms	Ongoing
		Review legislation to enable reporting entities share BO	PACRA FIC	Review legislation	Implementation	Implementation

		information with PACRA				
8.	Integrity of Reporting Entities' Staff	Reporting entities to enhance screening procedures when recruiting new staff and conduct ongoing know-your-employee procedures	Supervisory Authorities and Reporting Entities	Review and implement existing HR policies	Implementation	Implementation
		Reporting entities to report all staff dismissed due to any type of financial misconduct to their Supervisory Authorities		Introduce mandatory reporting procedures on dismissed staff to Supervisory Authorities and Law Enforcement Agencies (LEAs)  Develop a standard reporting template for dismissed staff	Create centralized registries in Supervisory Authorities for financial misconduct dismissals.  Monitor reporting entities adherence to new reporting procedures.	Implement annual ethics certification programs
		Implement mandatory	Supervisory Authorities	Develop a comprehensive	Conduct refresher ethics	Publish integrity trend analyses.

		Ethics training for all staff to foster an environment of integrity	and Reporting Entities	ethics training curriculum.  Roll out training to all employees (frontline, back office, management).  Establish an e-learning platform for ongoing compliance training	training and testing.	
9.	Low level of knowledge of staff in reporting entities on emerging AML/CFT/CPF matters	Training reporting entity staff on emerging AML/CFT/CPF matters	FIC  Supervisory Authorities	Ongoing	Ongoing	Ongoing
10.	Ineffective compliance function (Organization) in reporting entities	Appoint sufficiently-resourced and independent compliance officers to implement AML/CFT/CPF programs	Reporting entities	Ongoing	Ongoing	Ongoing

11.	Ineffective suspicious activity monitoring and reporting	Enhance systems for transaction monitoring and STR reporting	Reporting entities	Ongoing	Ongoing	Ongoing
12.	Low level of Market Pressure to meet AML Standards in the insurance, securities and DNFBP Sectors	Enhance enforcement action	PIA SEC FIC  DNFBP Supervisors	Inspection of reporting entities	Ongoing	Ongoing
		Capacity building for DNFBP Supervisors	DNFBP Supervisors FIC	Ongoing	Ongoing	Ongoing
13.	AML/CFT sanctions not dissuasive or proportionate	Review legal framework to enhance the sanctions regime	LEAs  Ministry of Justice  FIC	Amendment of the laws	Implementation	Implementation
14.	Weak supervision and oversight activities by DNFBP Supervisors	Implement Risk - Based Supervision framework to strengthen AML/CFT/CPF supervision in DNFBPs	ZIEA, LAZ, ZICA, Ministry of Tourism (Licensing Committee), Ministry of Mines, FIC	Carry out risk-based inspections	Ongoing	Ongoing
15.	International information exchange	Establish an electronic filing	MOJ  Smart Zambia	Development of electronic filing	Implementation	Implementation

		system for MLA requests		system for MLA requests		
		Amend the MLA in Criminal Matters Act	MOJ MoFAIC LEAs	Review of the law	Implementation	Implementation
		Operationalise international frameworks for the exchange of Tax information	MOJ MoFAIC LEAs	Implementation	Implementation	Implementation
		Ratify the Budapest Convention on Cyber-enabled crimes	ZICTA ZPS Zambia Cyber Security Agency (ZCSA) Ministry of Justice Ministry of Foreign Affairs	Initiate process for ratification of the Budapest Convention	Ratification and domestication	Implementation
16.	Weak administrative or civil sanctions for environmental and natural resources crimes (ENRC)	Develop administrative /civil sanctions under ENR Crimes	Ministry of Lands and Natural Resources (Forestry Department)	Review and amend the legal framework	Implementation	Implementation

			Ministry of Mines  ZEMA  Ministry of Tourism (DNPW)			
17.	Weak capacity of Preventative Authorities	Increase field equipment	Ministry of Lands and Natural Resources (Forestry Department)  Ministry of Mines  ZEMA  Ministry of Tourism (DNPW)	Acquire field equipment	Ongoing	Ongoing
		Increase human resources	Ministry of Lands and Natural Resources (Forestry Department)  Ministry of Mines	Recruit human resource	Ongoing	Ongoing

			ZEMA Ministry of Tourism (DNPW)			
18.	Limited capacity of Criminal Law Enforcement in ENRC	Enhance financial investigation techniques of ENRC officers	Ministry of Lands and Natural Resources (Forestry Department)  ZEMA Ministry of Tourism (DNPW)	Identification of technical assistance providers	Implementation	Implementation
19.	Limited capacity for effective management of forfeited assets	Review the legal framework	NPA	Develop legislation on asset recovery	Implementation	Implementation
20.	Lack of a legal framework for VASPs	Develop a legal framework for VASPs	BoZ FIC	Enact the legal framework on VASPs	Implementation	Implementation
		Develop capacity to identify unregistered VASPs operating in Zambia	BoZ FIC PIA SEC	Identify and engage TA providers	Implementation	Implementation

		Develop capacity to investigate, trace, seize and confiscate virtual assets	LEAs FIC NPA Judiciary	Identify and engage TA providers	Implementation	Implementation
		Acquire specialized tools for analysis, investigation and prosecution of VASPs/ VAs	LEAs FIC NPA	Identification of TA providers and undertake benchmarking exercise	Implementation	Implementation
21	Limited knowledge on operations and activities of VASPs/VA by reporting entities and the general public	Conduct country-wide awareness to reporting entities and the general public	FIC BoZ Yellow Card PIA SEC	Development of training materials and implementation	Implementation	Implementation
22.	Limited knowledge on Proliferation Financing by reporting entities	Conduct PF risk awareness	Remittance agencies BoZ FIC NATC	Conduct specialised PF risk awareness	On-going awareness programs	Review effectiveness of PF controls for remittance agencies
23.	Inadequate knowledge on the operations of proliferators by competent authorities	Undertake capacity building on PF	NATC FIC ZRA	Identify TA providers	Undertake training	Undertake training
24.	Lack of ICT systems, software and hardware to detect and disrupt online TF/PF activities	Acquire ICT systems, to detect online TF/PF activities	NATC FIC ZSIS DDI	Acquire ICT systems	Acquire and implement ICT systems	Implementation

25.	Limited knowledge on the implementation of Targeted Financial Sanctions (TFS) by reporting entities	Develop capacity on implementation of TFS	DNFBPs, VASPs and financial sector  FIC BOZ NATC	Identify TA provider(s)	Conduct training on implementation of TFS	Ongoing
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