



# Vanuatu National Risk Assessment 2024

on Money Laundering, Terrorism Financing and Proliferation Financing

# Forward

Through an effective AML/CFT system we can improve the reputation of Vanuatu. This occurs through recognising our risks and then developing strategies, policies, and processes in direct response to those recognised risks. This NRA has identified key areas of risk that now requires a response which will strengthen the integrity of our financial system and ensure our financial system is hostile to crime.

The 2024 NRA builds on the 2017 NRA, and the updated sectoral classification from 2018. This NRA informs all stakeholders across Vanuatu's AML/CFT community of current risk. The NRA identifies the significant criminal behaviours that generate illicit income that threaten Vanuatu's system, it also assesses and identifies the vulnerabilities within our financial system that criminals are taking advantage of to launder proceeds of crime. This NRA identifies that corruption, misuse of government funds, and transnational money laundering are currently the highest threat to Vanuatu's AML/CFT system.

For this reason, the banking sector remains highly vulnerable to money laundering along with any sector that offers services and products enabling movement of proceeds out or into Vanuatu, including the remittance sector. The citizenship for investment programs and the associated payments for citizenship to Vanuatu are recognised to be high risk. These programs, require the highest levels of control and oversight, as this NRA has identified multiple instances where foreign criminals have taken advantage of these programs to obtain citizenship with associated payment likely made with illicit wealth. These programs have damaged the reputation of Vanuatu, and reviewing, improving and strengthening these programs is acknowledged to be a priority.

This NRA also includes Vanuatu's first assessment of proliferation financing (PF) risk. Proliferation financing activities refer to the raising and moving of funds to finance the development of weapons of mass destruction. It is recognised that preventing the proliferation of these dangerous weapons is a global collective responsibility. Although being a small Pacific nation Vanuatu is not immune to being misused for avoiding sanctions and disguising funds ultimately used to finance these weapons. This NRA identifies that Vanuatu is 'high-risk' with regards to PF, it also acknowledges that the citizenship programs are the cause of this risk.

Finally, this NRA relies on a range of sources of information – in particular, information received from reporting entities, government agencies, and the private sector. I take this opportunity to thank those who have provided important contributions. The important information provided now requires us to work together again. We must take collective responsibility to address our countries risk; we must accept and respond to the opportunities identified within this NRA, we must challenge ourselves to strengthen and improve the resilience of our AML/CFT system, to make it harder for criminals to operate.

(signature)

**Mr. George Maniuri**

Director General of the Prime Minister's Office

Chairperson - Vanuatu National Coordinating Committee, The NCC

July 2025

# Contents

Page	4	Background and context
Page	5	Citizenship by Investment Programs (CIPs)
Page	6	NRA Key Findings
Page	17	Most Threatening Criminal Behaviours
Page	24	Lower Threat Criminal Behaviours
Page	33	Sectoral Vulnerabilities
Page	69	Legal Persons Legal Arrangements
Page	77	Terrorism Financing Risk Assessment
Page	81	Non Profit Organisation (NPO) Sector
Page	83	Proliferation Financing Risk Assessment



# Background and Context

Vanuatu is an archipelago made up of 83 relatively small islands, with 65 of them inhabited. The total land area exceeds 12,000 km<sup>2</sup>, and the coastline stretches for 3,132 km. Vanuatu's closest neighbours are the Solomon Islands to the northwest, Fiji to the east, and New Caledonia to the southwest.

As of 2019, the estimated population of Vanuatu was around 300,000, with a GDP of approximately USD 1.2 billion according to IMF data [1]. The population is notably youthful, with 38% under the age of 15. Vanuatu is one of the most culturally and linguistically diverse countries globally, boasting over 110 indigenous languages.

The economy is based primarily on subsistence or small-scale agriculture, which provides a living for 65% of the population. Fishing, offshore financial services, and tourism are other mainstays of the economy. Mineral deposits are negligible; the country has no known petroleum deposits. A small light industry sector caters to the local market. Tax revenues come mainly from import duties and a 15 percent Value Added Tax (VAT) on goods and services. Its key exports are Kava, coconut oil, copra, cocoa, beef and they are generally sent to New Caledonia, Australia, New Zealand

The parliament of Vanuatu is unicameral and has 52 members; these are elected every four years by popular vote. The leader of the main party in the parliament is usually elected Prime Minister and heads the government. The head of state, the President, is chosen every five years by the parliament and the presidents of the six provincial governments.

When it comes to addressing transnational crimes, Vanuatu encounters challenges like those faced by other Pacific nations. Its vast geographic expanse, porous maritime borders, small populations spread across multiple islands, and limited law enforcement resources make effective policing challenging. For criminal organizations, the relatively low risk of being caught, combined with the high profitability of transnational and organized crime, enhances the region's attractiveness as both a location and a transit route for these activities. Although it is acknowledged that transnational organised crime groups may transit commodities through territorial waters, these groups do not have a physical presence in Vanuatu nor is there a domestic organised crime presence.

In 2022, the Vanuatu government was the subject of a significant cyber-attack. Services such as email, network shares, Voice over Internet Protocol apps and other online government operations were down for several weeks. The impact of the cyber-attack was wide reaching. Government authorities have still lost data from 2022 that is unable to be recovered. This impacts this risk assessment in that statistics and data for 2022 are generally not available for analysis.

Political instability remains a key concern for Vanuatu as there were frequent changes of government in 2023/2024. Political instability could disrupt any urgent AML/CTF related legislative, policy and institutional reforms in Vanuatu. There are ongoing concerns on correspondent banking relationships (CBRs) and new risks from virtual assets sector. While Vanuatu is technically compliant with 39 out of FATF 40 recommendations, Vanuatu's AML/CTF effectiveness framework needs substantial improvements ahead of the 2026 mutual evaluation by the Asia Pacific Group on Money Laundering (APG).

Vanuatu has achieved a number of successful cases of money laundering investigation, prosecution and convictions since 2016. 14 members of parliament were successfully investigated, prosecuted and convicted for corruption charges in 2015. Vanuatu has also achieved successful conviction of cases involving forgery, obtaining money by deception, false pretence, currency counterfeiting, human trafficking, theft, misappropriation, obtaining money, and related serious offences.

Total assets of Vanuatu's banking system was VUV171 billion Vatu in 2023. The size of the regulated offshore finance sector has declined considerably due to new requirements on physical presence, local employment, and beneficial ownership requirement.



# Citizenship by Investment Program (CIP)

Revenue generated from Vanuatu's CIP scheme is significant. In 2020, despite Vanuatu's simultaneous crises (of Cyclone Harold, a volcanic eruption, and Covid-19), the scheme provided 35% of total government revenue and contributed to a budget surplus. In 2022 the Vanuatu government reported that the CIP program contributed up to 50% of government revenue.<sup>[2]</sup>

Revenue generated from this program has significantly reduced over the past years. Recent reports published by the Vanuatu Treasury Division of Department of Finance and Treasury shows that revenue collected from the citizen program was merely 24% of the total annual revenue for Vanuatu for 2023. January to June 2024 data shows a declining trend of revenue collected from the citizenship program that accounted for only 22% of Vanuatu's total revenue for the six-month period.

There are four pathways to citizenship by investment. They are (1) Development Support Program (2) Vanuatu Contribution Program (3) Capital Investment Immigration Plan (4) Real Estate Option.

The cost of these programs varies but generally range from USD100,000 – 200,000 with extra payable for dependants. Fees for the program are paid to selected government-appointed agents who all reside in Vanuatu and manage the applications. Agents also use sub-agents and introducers around the world to introduce new clients. Agents are generally paid approximately USD50,000 for each application out of the fee. The agent is responsible for an initial check and verification process. The documents are then sent to the FIU to prepare due diligence checks and are also sent to the Police to undertake Interpol checks. Generally, applications are turned around in two weeks with very short timeframes being provided to the FIU and police to undertake the checks. Applications are then submitted to the Citizenship Commission who provides final approval for the applicant.

Once an application is granted, the individual must then obtain a Vanuatu birth certificate as per the requirements of Immigration and Customs, Vanuatu. The birth certificate is then taken to the Passport Office and a passport is provided. Old practices enabled individuals to ask for a change of name when obtaining a birth certificate. This practice has since been outlawed, however many CIP applicants took advantage of this process and changed their names prior to obtaining the Vanuatu passport.

The citizenship program has in recent times attracted scrutiny amongst the international community as investors from around the world who had acquired Vanuatu passports had provided incorrect information at the time applications were made to the Citizenship Office. This together with other concerns on BO and UBO has led to the European Union suspending visa-free travel for Vanuatu citizens in the European Union from February 2023.

In relation to mitigation of money laundering and terrorism financing risks, Vanuatu has introduced policy controls and measures, such as, structured application vetting and screening process, scrutiny of source of funds, use of original name, prohibition on criminal conviction, and UN sanctioned countries.

# NRA Key Findings

This 2024 NRA consists of two broad assessments, the ML/TF/PF Threat Assessment and Sectoral ML/TF/PF Vulnerability Assessment. It discusses how these assessments influence money laundering risk, terrorism financing risk and proliferation financing risk in Vanuatu.

## Threat Assessment

An appreciation of current crime types, within the AML/CFT landscape domestically and globally, that pose a ML/TF/PF threat. This assessment has been undertaken through profiling predicate criminal behaviours and considers available intelligence, investigations, prosecutions, and other anti-money laundering activities undertaken in response to criminal behaviours.

## Sectorial Vulnerability Assessment

Each sector has been profiled to assess vulnerabilities of the products and services offered by reporting entities (in the financial and non-financial sectors) to ML/TF/PF. This assessment considers these sectors' inherent characteristics, and how these sectors can be exploited by criminals to undertake criminal activities. These assessments also review reporting from the sectors and consider how this reporting features in money laundering investigations.

## Methodology

This is Vanuatu's third National Risk Assessment (NRA). The first NRA was conducted in 2015 and a second NRA including an updated risk assessment for TF, NPOs and the offshore sector was completed in 2017. Further, in 2018, the Supervisory Working Group led a sectoral matrix of risk based on information from relevant stakeholders.

The 2024 NRA updates Vanuatu's ML/TF/PF risk profile using an internal methodology based on the McDonnell-Nadeau Consultants (MNC) methodology and fully in line with international best practices and the FATF Standards.

The Vanuatu National Coordination Committee (NCC) oversaw the NRA process, guiding and directing authorities work on the data collection, analysis and drafting. The NCC was supported by two working groups, the Law Enforcement Working Group (LEWG) and the Supervisory Working Group (SWG) who coordinated their respective agencies responses.

Threat Profiles for ML (covering all predicate offences and professional/third party ML), TF (identifying specific groups of actors), and PF (identifying proliferation actors) were developed taking into account Vanuatu's specific context and available information. These threat profiles contain all available information relevant to analyse and assess the level of ML/TF/PF threats in Vanuatu.

Vulnerability profiles for each FI, VASP and DNFBP sector were also developed. These profiles contain all information needed to analyse and assess the level of inherent ML/TF/PF vulnerability, (including the sector's inherent characteristics (e.g., size, complexity and integration with other regulated sectors), information on products and services provided, nature of the clientele, and the geographic reach of the sector's activities.

The NRA methodology used by Vanuatu involved the development of a high-level assessment of its national vulnerabilities. This assessment entailed examining the characteristics of Vanuatu's geography, economy, financial system, CIPs, legal entities and arrangements, demographics and governance, and analysing how criminal actors could exploit these characteristics.

Once the profiles comprising the inherent risk assessment were developed, Vanuatu convened a validation workshop. During this workshop all profiles were reviewed and discussed. As a result of this workshop there was an agreed consensus on where greatest risk exists within Vanuatu's AML/CTF system. This has ultimately been ratified by the NCC.

The inherent risk assessment used a three-tier risk scale of most risk (High), lesser risk (Medium) and low risk (Low). Authorities acknowledge that this assessment scale deviates from the MNC methodology, but this was preferred due to the unavailability of some data given the previously referred cyber-attack. Authorities consider that the three-tier scale accurately identifies where risk is highest within Vanuatu's AML/CTF and PF system.

## Key Findings

This NRA's findings provide contemporary understanding of ML/TF/PF risk in Vanuatu. They provide the foundation for informing reporting entities of risk, and the development of their specific risk understanding and the design of risk-based mitigating measures.



Risk understanding should provide input into the design and development of national and institutional AML/CFT policies; deployment of supervisory measures and resources; and the co-ordination and deployment of enforcement response measures.

This NRA will inform an action plan designed to increase resilience and strengthen response to prevent the occurrence to ML/TF and PF in Vanuatu.

### **MOST RISK CRIMES**

Most-risk Crime (HIGH)

Corruption and misuse of government revenue by officials.

Transnational money laundering:  
The movement of illicit wealth across our borders.

Fraud, inclusive of frauds against the government

### **MOST VULNERABLE SECTORS**

Most Risk Sectors (HIGH)

Both domestic and international Banks

Sectors offering remittance services

Trust and company service providers

Financial Dealers

Online gambling (once operational)

### **SECTORS USED BY CRIMINALS**

Sectors abused for– facilitating transfer or placement of proceeds of crime.

Lawyers and accountants who provide specified services

Real estate sector

## **Threat risk assessment: Key Highlights**

The threat risk assessment has profiled; likely significant predicate ML crimes and the potential of terror financing and proliferation financing activities that threaten our AML/CFT system.

Predicate crimes are the criminal activities from which illicit income is derived and which a person then ‘deals with’ for the purpose of laundering. Profiles were developed using quantitative and qualitative data on inherent risk and the effectiveness of current control measures to determine current and projected risk.

Risk ratings emerge into three categories; most risk (High), lesser risk (Medium) and low risk (Low). Most risk emerges from high-volume and high-value crimes that therefore have high threat to the AML/CFT system, while ‘low-risk’ relates to crimes with low frequency and low value. All crimes which generate income present risk; however, a key focus of a national risk assessment is to inform and focus activities on the risks that will have the greatest impact on reducing overall risk and therefore make the greatest difference in preventing money laundering.

## **Money Laundering**

Corruption and misappropriation of public monies, the laundering of proceeds from crimes that have occurred in foreign jurisdictions (foreign-generated illicit wealth), and frauds against the government are the highest-value crime threats currently.

## **Terrorism Financing**

Domestic terror financing threat is recognised to be low. Threat however is present when foreign terrorists and terrorist organisation identify and recognise vulnerabilities within countries that can be exploited to move and obfuscate the movement of funds for the purpose of financing terror related activities. There are vulnerabilities within Vanuatu that could enable the movement of foreign raised terror funding, which include the misuse of citizenship for investment programs, and the misuse of legal persons and arrangements to support the enablement of TF schemes. Vigilance and awareness are critical given the consequences of financing of terrorist acts.

## **Proliferation Financing (PF)**

PF risk largely emanates from the Democratic People's Republic of Korea (North Korea or the DPRK) and Iran. Criminals from these countries are known to conduct a range of crimes, including complex cyber-enabled frauds, to derive income. The assessment of PF risk includes the assessment of potential breaches, non-implementation, and the evasion of targeted financial sanctions within Vanuatu's system. Again, the misuse of the CIPs and the misuse of corporate structures and legal arrangements are the most significant vulnerabilities to proliferation financing. Vanuatu's risk also lies in the transfers to intermediary jurisdictions that are sympathetic to North Korea and Iran.

The banking and remittance sectors are most vulnerable to proliferation financiers as they provide methods for transferring funds internationally. The PF risk assessment concludes that PF risk is present given the operation of the CIP. This therefore requires an improved understanding of the concerns regarding the CIPs and how they present risk for PF (and TF).

# Key Crime Threats

## Corruption and Misappropriation of Government Funds

There was widespread concern from government agencies and the private sector regarding the misuse of public monies by public officials.

This involves the use for public moneys for political and personal benefit. The value of this type of offending is likely significant.

The occurrence of this type of behaviour drives mistrust in government officials.

Co-ordinated response to this type of crime is lacking and investigation outcomes reflect that holding senior officials to account is complex and challenging.

## Fraud inclusive of frauds against the Government

In the domestic environment fraud committed against the government presents high threat (where the government is deceived – resulting in a loss of funds).

This excludes tax related frauds (including the misrepresentation or suppression of income) associated with tax obligations. Vanuatu has implemented policy and legislation to improve tax compliance and transparency. Domestic victimization is occurring against citizens however the value is likely modest.

## Transnational money laundering - the introduction of foreign generated proceeds into Vanuatu.

Offshore-generated proceeds have likely been introduced to Vanuatu. This is recognized as criminals have successfully exploited the CIP programs to gain citizenship, likely purchased with illicit wealth.

It is recognised that cross-border movement of criminal proceeds affords those proceeds some degree of protection, and criminals can take advantage of this through the CIP schemes.

Given the recognized risk associated with the CIP programs Vanuatu should be recognized as a country where AML/CFT systems will detect, investigate and confiscate foreign-generated illicit wealth. This has not occurred.



# Key Threat Drivers

Drivers of ML/TF and PF include the citizenship for investment programs, use of cash, the reputation of Vanuatu, and facilitators who enable movement of money domestically and internationally.

## CIPs

These programs are developing a global reputation which could become increasingly attractive to criminals around the world. Cases have been identified that reflect an absence of appropriate controls – these programs fuel risk.

## Cash

Cash affords anonymity. Cash is a critical feature within the criminal economy. Cash is introduced into the financial system and 'used' or converted into high-value property. The ability to move cash between the illicit economy and the legitimate economy is both an enabler and driver of both predicate crime and money laundering.

## Politically Exposed Persons

Power yielded by PEPs in Vanuatu can undermine key government institutions and private financial institutions. Access to and use of financial and non-financial services without proper scrutiny allows corruption proceeds to be laundered whilst the ability of government institutions to oversee and enforce AML requirements can be undermined.

## Reputation

Vanuatu has a reputation of offering services and products (such as citizenship) which have and will likely continue to damage the reputation of the country. A reputation of being recognised as having weak AML/CFT/PF controls will attract criminals, terrorists and others.

## Wire Transfers

Enables the movement of funds into Vanuatu and offshore. The ability to receipt funds into Vanuatu to purchase passports and identity documents by criminals, which can then be used to launder money in other parts of the world drives crime. Wire transfers are an enabler.

## Availability of mule bank accounts

In relation to fraud offending, the use of third party or mule bank accounts enables the movement of proceeds which drive the occurrence of this crime type

## Auditing and enforcement effectiveness

Associated with misuse of government monies. Both impact on the accountability of public officials. An absence of accountability demonstrates a tolerance which drives the continuation of offending. Improved transparency, and accountability is critical to curb the threat associated with corruption and related crime and associated money laundering.

## Drivers from vulnerabilities

Vanuatu's offshore sector, although reduced since the last NRA, it remains a vulnerability for Vanuatu by foreign criminals. Coupled with its status as a tax haven this makes Vanuatu potentially enticing for criminals to launder money, either using a vehicle established in Vanuatu or Vanuatu international bank accounts and international companies. The CIP further facilitates the use of these sectors by foreign criminals.

# Sectorial vulnerabilities within Vanuatu

The 2024 NRA assessed 19 sectors, including banking institutions, professional gatekeepers (real estate agents, lawyers, accountants), remittance service providers, virtual asset providers, issuers of securities, currency exchange service providers, casinos and other smaller sectors.

The sectors most vulnerable to exploitation by threat actors were assessed to be banking, and international banking and financial dealers. Trust and company service providers (TCSPs), lawyers and accountants conducting specified activities, and the real estate sector are identified as vulnerable to the laundering of proceeds of crime.

## Highest Risk Financial Institutions

Table 1 illustrates the inherent risk of the higher risk sectors in Vanuatu.

International Banks	High
Domestic Banks	High
Financial Dealers	High
MVTS	Medium
VNPF	Medium
Mutual Funds	Medium
Currency Exchange	Medium
Cooperatives	Medium
Interactive Gaming	Low*

\*on the basis that it is a new program not yet in existence with no licenses issued yet however when licenses are issued will need to revise risk likely to high.

## Highest Risk Designated Non-Financial Businesses and Professions

Take 2 illustrates the inherent risk of the higher risk sectors in Vanuatu.

CTSPs	High
Lawyers**	High
Accountants**	High
Casinos	Medium
Real Estate	Medium
Vehicle	Medium

\*\*Only those engaged in the designated high-risk activities

## Sectors Size

The banking sector is most vulnerable because of the size of the sector and because the high-threat crime types all engage with this sector. Almost all fraud (where funds are misappropriated, or victims' funds are transferred to offenders) occurs within and between the banks. Also, impacting on risk is the interconnectedness of the banking sector; all other sectors operate within or have high reliance on that sector given the broad range of products and services available through the banks.

Wire transfers typically enable cross-border transfer of proceeds associated with various foreign crime. Payments associated with the CIPs enter Vanuatu's financial system through wire transfers. Typically, cash can be laundered when it enters the banking system, either directly or via the Designated Non-Financial Business and Professionals (DNFBP) sector.

## Sectors abused for ML across the high-risk crimes

A review from the sectors identified as being misused by criminals highlighted the top five reasons for reporting a STR. Suspected fraud, corruption and misappropriation of government funds are a leading concern across each sector. This aligns with the threat assessment.

Real estate continues to feature anecdotally as a sector that is receiving proceeds of crime. Lawyers are a sector directly connected given to the conveyancing of property transactions. Real estate and lawyer sectors are both vulnerable to exploitation by individuals looking to launder criminal proceeds through Vanuatu property and investment activities.

## Consequences

The consequences of the domestic and transnational ML/TF threats to Vanuatu are significant.

- Economic: The economic consequences are coupled with the reputational consequences. Perceived weak controls and vulnerabilities to ML/TF can impact on correspondent banking relationships, which has widespread implications for citizens. This includes citizens living and working abroad who contribute to the country's GDP. Vanuatu does offer offshore products which would be impacted by the loss of correspondent banking relationships. Further, for Vanuatu to develop and engage in trade and transactions globally, the need to freely move money globally is paramount and the ability of Vanuatu to continue to develop and grow will be impacted.



- Vanuatu is currently on the European Union AML/CFT High Risk countries list. This list reflects the EUs position on countries with strategic deficiencies in their AML/CFT regimes. This is despite Vanuatu being de-listed from the FATF “grey list” in 2018. The impact of this listing can be severe on countries, as the list requires all EU countries to apply enhanced due diligence when dealing with Vanuatu, which has a major impact on trade and correspondent banking. It is recognised that Vanuatu must address ML/TF vulnerabilities and threats to be removed from the EU high risk countries list and to avoid future FATF grey listing.
- Political: How will this affect the Government’s regional standing – their sphere of influence, etc.; how will it affect the country’s place geo-politically, especially in negotiations or discussions with governments of other nations; or their influence in international organisations such as the UN and WTO.

## Changes from last NRA

The findings of risk in this NRA have evolved since the 2018 sectoral assessments and 2017 ML/TF assessment. Overall, the changes in risk are largely due to the CIP and the risks that it poses to Vanuatu, and the sectors within Vanuatu that are vulnerable to the CIP. This has also impacted the TF and PF assessments. Further, this NRA has considered a greater number of predicate offences in more depth and the findings have matured since 2017 based on known incidents of crimes and related typologies.

### Increasing threat

Increasing volumes and values of fraud crime – including where the government is targeted, or where government funds are misappropriated.

Increasing threat associated with corruption – including that directly linked to the investment schemes.

Increasing threat associated with transnational money laundering where foreign generated illicit wealth, form a range of crimes including foreign tax crime, takes advantage of the vulnerabilities within Vanuatu’s AML/CFT framework to launder proceeds of crime.

### Decreasing

Money laundering risk associated with non-compliance with Vanuatu’s tax system. No direct taxation or capital gains tax reduces the opportunities for tax related frauds or tax non-compliance. Policies and legislative amendments have also been introduced to improve compliance, transparency and accountability association with taxation obligations in Vanuatu.

### TF risk is increasing

Terrorism financing risk is increasing due to the ability for terrorists and terror organisation being able to misuse the CIPs for nefarious purpose.

Table 3 Change in risk per sector 2018 NRA 2024 NRA.

Sector	Risk (as per 2024 classification)	Risk (as per 2018 classification)	Upward/Downward trend
Financial Sector			
International Banks	High	High	Remained the same
Domestic Banks	High	High	Remained the same
Financial Dealers	High	High	Remained the same
MVTS	Medium	High	Downward
VNPF	Medium	Medium	Remained the same
Mututal Funds	Medium	Low	Upward
Interactive Gaming	Low*	High	Will largely remain the same one operational
Insurance (domestic)	Low	Low	Remained the same
Insurance (offshore)	Low	Medium	Downward
Lotteries	Low	Medium	Downward
Credit Unions	Low	Medium	Downward
Cooperatives	Medium	Low	Upward
Currency Exchanges	Medium	Medium	Remained the same
Lending schemes	Low		Not assessed in 2018
Mobile-money-operations	Low		New Sector
DNFBPs			
CTSPs	High	High	Remained the same
Lawyers**	High	Medium	Downward
Accountants**	High	Medium	Downward
Casinos	Medium	High	Downward
Real Estate	Medium	Medium	Remained the same
Vehicle	Medium	Medium	Remained the same
Dealers in precious metals and stones	Low	Medium	Downward

\*Those lawyers who undertake CTSP, Real Estate transactions and CIP work are considered high risk, all other categories of lawyers considered to pose a lower risk

\*\* It is important to note that those sectors marked "medium" or "low" risk are not considered to be immune from money laundering and terrorist financing risks. Authorities acknowledge that they do and may pose risks however their risk exposure is considered less than those marked as "high". Authorities continue to monitor these sectors for potential ML/TF.

## **Outlook beyond 2024 - Threats**

The high-threat crimes described in this NRA are likely to drive risk for the next two to three years.

## **Outlook - Vulnerabilities**

Banking is likely to remain the most risk sector, including both the domestic and international banking sectors. These sectors may be vulnerable to abuse for ML/TF as the primary conduit for the movement of funds, both in relation to domestic predicate offences and potential transnational money laundering from offshore actors.

The citizenship for investment programs is likely to continue to expose Vanuatu's AML/CFT system to significant risk as criminals take advantage of the systems, processes and controls related to these programs. Complacency associated with these programs is the leading vulnerability to the reputation of Vanuatu and its potential for facilitation of money laundering.

As many countries deepen knowledge and understanding of proliferation financing, countries who have recognised AML/CFT/PF weakness will become attractive to foreign state actors. Countries with perceived lax citizenship by investment schemes have been and will continue to be vulnerable to risks of sanctions evasion for TF and PF and to TF more broadly.

The CTSP, FDL and online gaming sectors must be closely monitored for ML/TF facilitation as they are identified as being highly vulnerable to ML/TF, and to facilitate ML/TF both domestically and globally.



# Most Threatening Criminal Behaviours

## The Laundering of Foreign generated proceeds - the introduction of foreign generated proceeds of crime into Vanuatu

Foreign criminals have successfully obtained Vanuatu citizenship via CIPs. The FIU, Police and the Vanuatu Immigration and Passport Service are required to support the vetting process for applicants of these programs. The reality is that appropriate levels of vetting were not occurring in the past due to the unreasonable time frames placed on both agencies to undertake thorough vetting and the difficulties in verifying foreign applicants. For this reason, foreign criminals have obtained citizenship, this includes wanted fugitives of foreign jurisdictions and other criminals. Given such cases have been identified it is likely that sophisticated criminals would be motivated to exploit the programs to obtain identity documents such as passports and related birth certificates to enable money laundering to occur in foreign jurisdictions.

Successful applicants of the CIPs are issued with both a Vanuatu Passport and a Vanuatu birth certificate. Approximately 50 approved 'new citizens', having been granted citizenship changed their identity in Vanuatu, upon which they were issued refreshed passports under their new name. This practice has been prohibited however a full review of these individuals, their applications, and their financial footprint in Vanuatu has not been undertaken.

Several foreigners who were wanted on INTERPOL Red Notice Alerts relating to fraud in their countries have obtained a Vanuatu passport. The documents furnished in their applications contained falsified declarations. There has been very limited investigation undertaken in relation to these false declarations or the investor funds used to purchase citizenship.

A foreign criminal incarcerated in a foreign prison, having been convicted on serious drugs and violence offending obtained (from prison) a Vanuatu passport. Upon release from the prison, he was as a result deported to Vanuatu. The source of funds used to acquire the passport is unknown. He remained in Vanuatu for a week before departing, his current whereabouts is unknown.

Between July 2022 to 27 November 2023, INTERPOL Port Vila has received 13 requests for information from foreign counterparts in relation to Vanuatu citizenship holders. These all related to these individuals being suspected of involvement in frauds.

The Citizenship Office has dependence on the receipt of notarized documents provided through the foreign CIP Agent. When the Citizenship Office is advised by Vanuatu Police of the existence of a red notice, the application is set aside pending the outcome of due diligence checks associated with the notice. Historically due diligence was required to be completed within 48 hours however this has been extended to 96 hours. Compliance for this timeframe is completely reliant on the provision of information from foreign law enforcement agencies who have competing demands. 96 hours is an unrealistic expectation with due diligence taking a minimum of 14 days. If due diligence information is not available within 96 hours, citizenship may still be granted. Persons have obtained Vanuatu citizenship from China and have purchased land in Vanuatu. The cost of a Vanuatu citizenship well exceeds the currency control measures that control capital flight from China. It is unknown how funds used to fund applications are validated in terms of confirming the legitimate source of wealth requirements in these circumstances. There are also instances where persons who are not permanent residents in Vanuatu have acquired property (this is not legally permitted), and it is not known how payment was facilitated.

**Case Study: A local Vanuatu business (a foreign exchange dealer) and an individual purchased real estate in Vanuatu on behalf of a CIP applicant wanted on an INTERPOL red notice.**

In addition to payments and investment through the CIPs presenting risk there are other instances where foreign generated illicit wealth has entered the Vanuatu financial system. This has been identified where foreign law enforcement seek the assistance of authorities to investigate and restrain property.

**Case Study: In 2020 a European country made a mutual legal assistance request to Vanuatu to restrain proceeds related to a foreign fraud. Early March 2024, Vanuatu's Central Authority with the assistance of the Police successfully obtained banking evidence from a Vanuatu Bank (NBV) which was provided to the requesting Country. The proceeds in the Vanuatu Bank account also been restrained.**

## Corruption

Corruption is the acceptance of funds or property from others, to remunerate and influence a decision to the benefit of the payee. It does not include the theft of public funds for personal benefit, this is addressed in a discreet crime profile.

Authorities, open-source media reporting, and financial intelligence all identify that corruption, and bribery is a widespread issue for Vanuatu. The 2021 Transparency International Global Corruption study identified that 21% of all public service users in Vanuatu have had to pay a bribe to obtain a public service. That same research identified that 73% of all respondents identified that corruption was a problem within the government, and in particular respondents identified that vote buying was an issue that was interfering with the democratic process in Vanuatu. It is also reported that corruption is an endemic enabler for operating successful private sector business within Vanuatu.

Authorities confirm that corruption is prevalent among politically exposed persons, political office holders and government employees. Corrupt officials have been known to engage with other key actors within relevant public and private sectors to ensuring they evade justice or frustrate a proper justice process associated with their behaviours.

Corruption and bribery in Vanuatu can take many forms but all involve the abuse of public or private office for personal gain. Corrupt practises have prevalence in both the public and private sectors, corruption can occur at the highest levels of government or at a local level whenever a person has power to influence decision making. The money involved in the high-level corruption could be significant and at lower levels of the public service the values can be modest.

Corrupt transactions can be simple or complex with actors using various parts of the financial sector and family members to launder the proceeds of this crime type. Given the nature of corruption in Vanuatu, sophisticated resources are generally not required to launder the proceeds of this crime type.

Bribes paid to public officials come in several forms. Cash is the dominant type of bribe in the lower value range of offending. Estimated proceeds of crimes related to crime threat involves many millions of VT.

**Case Study: In 2019, a former deputy sheriff of the Supreme Court was convicted of obtaining money by deception. During the investigation it was evidenced that he offered and in fact bribed a particular witness to take responsibility for his offending. He was sentenced to 5 years for the fraud offence.**

The FIU receives information related to corruption on average 10 times per year. Reported relates to:

- Suspicious cash transactions.
- Cheque deposits from the Government or a third-party account who has an unknown relationship with the account holder.
- Discrepancies in business documents that the official is using when trying to explain the source of funds to the reporting entity.
- Irregular payments that are inconsistent with the customers banking profile.
- Supervisor initiated STRs that are identified during the audits of PEP bank accounts (for example in one matter an account was opened in the name of a child of a PEP, and this account was used to receipt corrupt payments).

Reports received or obtained by the FIU that are related to suspected corruption must be analyzed by the FIU as a priority. This policy is in direct response to the recognized risk associated with this crime threat. Corruption related reports are analyzed and disseminated to both Police (if a possible offence is suspected under the Penal Code) and the Ombudsman (if a breach of the Leadership Code is suspected).

Vanuatu FIU commenced sending intelligence to the Ombudsman in 2020. Not all intelligence disseminated is related to money laundering offences. Vanuatu Police do not open investigation based on intelligence provided by the FIU unless a formal complaint is made by a victim or complainant.

There are no cases where legal arrangements have been identified as having been abused to conceal and launder corruption proceeds.

Table 4 Intelligence disseminated per year related to corruption

Year	Corruption related dissemination
2019	3
2020	8
2021	17
2022	4
2023	1

FIU data was lost in 2022 because of a cyber-attack, hence a decrease in 2022.

Prior to dissemination, the FIU routinely places a hold over suspicious accounts, to prevent the account holder using the funds contained in the accounts. The value of previous holds was approximately VUV 100 million (USD0.85M) across 3 cases.

It is considered most likely that financial Institutions, and the DNFBPs especially the real estate and car dealers are most likely used to launder the proceeds of corruption.

On one occasion a dissemination related to domestic corruption matter in which the corruption proceeds were remitted abroad.

There are no known cases where foreign generated corruption proceeds have been introduced to the Vanuatu financial system, however given concerns with the CIP this is a likely possibility.

Most unexplained cash reporting relates to cash intensive businesses (particularly, those owned by prior Chinese nationals) and several politicians. Cash is a feature of corruption at a lower level. This is also reflected in suspicious transaction and activity reporting.

#### **Case Studies:**

- **In 2020, a politician purchased a vehicle with VUV5 million unexplained cash**
- **In 2023, a politician attempted to deposit VUV1 million unexplained cash into an account in Vanuatu.**
- **A wife of a politician possessed more than 1 million unexplained cash in November 2020 and March 2021.**
- **In 2021, certain Members of Parliament paid for accommodation and meal at a hotel with AUD42,000 cash.**
- **In May 2023, a son of a politician received VUV1.4 million (via 2 transactions, under reporting threshold, via a money service/ transfer business) from a person in a foreign jurisdiction.**
- **On multiple occasions, businesses of Chinese origin nationals received unexplained cash.**

There have been no STRs reported related Police, Customs Officers, Tax Officials or the Judiciary.

The FIU is permitted to share intelligence with public officials (for example the employer or direct supervisor of the public official who is the subject of the reporting). The policy behind this was to improve the optics and increase transparency regarding the financial affairs and activities of public officials. Despite the ability to share suspicious financial reporting directly with the managers and supervisors of public officials this has not occurred.

Supervisors focus on PEPs when undertaking supervision of reporting entities. This has resulted in the submission of unreported financial activity that is considered suspicious by the supervisor but not previously reported by the reporting entity.

Authorities identify that there are challenges facing some government agencies and departments in responding to requests for information made by the FIU to support the development of intelligence in relation to corruption. This occurs where officials are reluctant to provide information in fear that it may impact on their employment, or future employment to senior roles in government

## **Misappropriation of public monies by officials**

Theft and embezzlement of public monies for private gain, or for illegal political party financing or vote buying is considered high threat in Vanuatu.



Although there have been occasions where government officials have transferred funds from government accounts to their own, there have also been occurrences of indirect benefit using state owned property. For example, a government official purchased a vehicle for a government roading project and having acquired that vehicle then treated the vehicle like it was his own, absorbing it into personal transport business so he could personally derive income from the ‘use’ of the vehicle.

The prevalence of embezzlement and theft of public funds has created an ethos in elected officials where they feel entitled to use public monies for their personal benefit. In most instances the offending has been undertaken by an individual, however there is a degree of tolerance with this type of behaviour to the point that many senior officials are suspected of misusing their office to use public monies for personal benefit.

Significant amounts of donor funds are received by Vanuatu each year. For example, in 2023 government revenue was 37 billion VUV and in addition 10 billion was received from donors.

There are established policies and procedures related to expenditure of income and foreign aid. Although these processes are well established, concern remains associated with auditing and transparency associated with some spending.

**Case Study: In July 2020 the former principal aid negotiator for the Vanuatu government was sentenced to 9 years imprisonment, for theft of aid monies and money laundering. The sentencing court acknowledged that he has not been adequately supervised, in terms of his management of the funds and on this basis reduced the sentence too 8 years. The value of the theft was VT14.9M. He was released on parole and officially pardoned on 28 July 2023. He has since been reemployed by the Government as an advisor. No attempts were made to recover the stolen funds, which were used for home improvements and the purchase of a vehicle.**

There are a series of referrals made to the Ombudsman’s Office and police relating to misuse of power for personal gain and misappropriation government monies.

Table 5 Case data provided by Police

Year	Quantity	Offence	Prosecuted	Convicted
2019	4	Theft public funds	4	4
2020	1	Money Laundering	1	1
2021	0		0	0
2022/2023	1	Theft public funds	1	0

# Fraud

Cyber fraud related scams are on the rise. There is also prevalence of general deception type offences. Although increasing in volume, these types of crime are generally low value. On average 5 fraud complaints are received by Vanuatu Police each week (estimated combined value VT 1 M (\$8,500 USD)). More significant complaints relate to fraudulent transfer of land which is enabled through corruption with the balance involving high volume, low value offending. There are 2-3 significant cases per year where frauds are committed against the Government (where the government is the victim). Fraud domestically is committed by individuals; however, the high volume / low value cyber enabled fraud could be committed by foreign organised crime groups.

Police acknowledge that general practice is to focus on the primary offender for the predicate crime, in relation to the modest value frauds, police do not look to 'follow the money' and identify laundering behaviours.

FIU reporting captures the occurrence of reporting related to scams, fraud / fraudulent tax evasion, forgery, and obtaining money by deception. Each of these are a type of fraud. Although values of these reports are not known, authorities consider that the volume is not significant. Most reporting emerges from the banking sector.

Typical offences include the issuance of valueless cheques, misappropriation of someone else's money (via a fraud) obtaining by deception and in some instances forgery. One recent higher value matter involved VT 17M (\$150,000 USD) which related to an employee at the Post Office who committed various frauds to obtain funds which were used to build a house on their home island. This matter is currently before the court. The last ML prosecution related to fraud occurred in 2018.

Cash is a feature of much volume crime in Vanuatu. Some frauds generate transfers of funds to an offender who then withdraws such funds in cash. Cash is not typically the direct proceeds of a fraud, and given the cash intensive nature of the economy, these proceeds become challenging to track, especially when used in small amounts.

Some 'new citizens' who have been granted citizenship via the investment programs are subject to Interpol red notices, and in addition the Interpol desk at Vanuatu Police has received various requests for information regarding other 'new citizens' who are suspected to be involved in offshore frauds and other financial crime.

There are no known instances where legal persons have been involved in ML related to domestic fraud proceeds.

# Lower Threat Criminal Behaviours

## Migrant exploitation / Human Trafficking

Migrant exploitation has occurred in Vanuatu. This type of behaviour has been committed by foreign nationals' resident in Vanuatu. The full extent of this type of criminal behaviour is not known however it likely that this activity is not occurring on a large-scale.

Vanuatu has in recent years increased effort in the detection of human trafficking and migrant exploitation. Vanuatu has developed a standard operating procedure for victim identification and referral. This includes screening for trafficking indicators among vulnerable populations, such as individuals who could be vulnerable for commercial sex work, and vulnerable to trafficking because of their displacement due to natural disasters. There have been no reported investigations, prosecutions, or convictions of government employees complicit in human trafficking offences.

**Case study: In 2020 Vanuatu commenced prosecution of four Bangladesh nationals for the 'forced labour of 101 Bangladeshi victims. This matter commenced when several victims approached police to complain of their treatment. Their allegations were that they had paid a fee on the promise of well-paid employment and upon arrival in Vanuatu were forced into domestic service and construction employment. As a result, ofn the investigation four persons were charged with slavery, money laundering and human trafficking. In October 2021, all four were convicted on all charges and sentenced to imprisonment for terms of 14 years, 7 years, 6 years, and 5 years respectively. Two of the four were convicted of ML relating specifically to the receipt of funds from Bangladesh and arranging transfer of proceeds into Vanuatu, via trade, and the 'use' of the proceeds within Vanuatu to purchase vehicles and support lifestyle. It was also identified that goods were purchased in Bangladesh with the intention that they be imported in Vanuatu to be sold. Two shipping containers of goods exported from Bangladesh have been restrained in Vanuatu along with two vehicles; and the contents of five bank accounts. A forfeiture application was pending hearing at the Supreme Court. However, the offender has since been pardoned and given that Vanuatu operates a conviction-based confiscation farmwork this prevents confiscation. Nevertheless, Despite this authorities are pursuing liquidation of the assets.**

# Environmental Crime

In Vanuatu, illegal logging and illegal fishing are likely to be the main crimes related to the environment. Illegal logging is confined to localised rural areas and likely facilitated through low level corruption involving landowners, and private individuals. China is a recognised purchaser of timber from Vanuatu. Illegal fishing has some prevalence with foreign nationals involved in those activities. Fish are likely to be harvested illegally from within the jurisdictional waters of Vanuatu and taken to foreign jurisdictions for processing and sale. This activity has no direct exposure to Vanuatu's AML/CFT system.

There is no evidence of organised crime being involved in illegal activities associated with Vanuatu's non-renewable resource sector. There is possibility that organised criminal enterprise has some limited involvement with illegal logging and fishing however this is not evidenced. There have been no STRs reported in relation to environmental crime.

There has been no intelligence developed and disclosed by the FIU in relation to environmental crime.

# Narcotics Crime

The consumption of illicit drugs in Vanuatu occurs at low levels. Cannabis is the dominant illicit drug; this is cultivated locally and the commercial activity that surrounds the sale and distribution of cannabis is limited. The seizures and detections of other types of illicit drugs are not occurring however it is possible that tourists demand might encourage undetected trading in illicit drugs at some point. High value drugs such as methamphetamine and cocaine are not known to be consumed within Vanuatu.

There have been documented concerns that Vanuatu (along with other Pacific countries) are possible transit points for the illicit transportation of narcotics into larger Pacific economies such as Australia and New Zealand. The movement of drugs through the jurisdiction (and more likely the very remote parts of the jurisdiction) would not expose Vanuatu to ML risk, given it is illicit commodities as opposed to funds moving across the jurisdiction. No known transnational organised crime groups have a presence in Vanuatu to facilitate this activity or derive income from their role in this activity.

The general absence of any demand for narcotics in Vanuatu, limits the availability of profits or proceeds that could be subject to laundering activity. There is a possibility that foreign predicate drug related crime could be introduced via the citizenship for investment schemes given foreign based criminals have been identified to pursue Vanuatu citizenship.

**Case study: 2020, VT 53,500 related to the sale of cannabis in the case of was forfeited to the national treasury by the Court having held to be proceeds of crime**

The citizenship programs may also attract serious and sophisticated criminals to Vanuatu who seek to use Vanuatu as a jurisdiction from which they co-ordinate offending and to facilitate movements of narcotics into high demand jurisdictions in the region.

## **Counterfeit goods**

There is concern that Vanuatu is an attractive market for the importation and sale of counterfeit goods, although evidence is limited. There is no evidence that organised crime is involved in such trade. Recently, there has been an increase in the trade of counterfeit goods in the Oceania region with growing demand for items such as clothes, pharmaceutical products, pesticides, and electronic items sourced from China. It is suspected that much clothing footwear and related products, and some food items available through retail outlets in Vanuatu are counterfeit goods. There is no evidence that the production or manufacturing of counterfeit of goods has occurred domestically.

If the importation, sale, and distribution of counterfeit goods is occurring then such enterprise would likely have the characteristics of organised criminal enterprise given participants would be both operating domestically with the support of others involved in foreign jurisdictions. The wholesale importation and sale of counterfeit goods would require a degree of sophistication given the goods are being sold through commercial businesses and part proceeds would be required to be repatriated to the country where the goods originate. Authorities suspect that counterfeit goods are sourced from offshore. This would reflect that part proceeds generated from the sale of such goods are somehow remitted back to foreign country for payment of the same. The likely method of moving funds back to foreign country is described in the vulnerability section of this NRA.

A significant issue with understanding this threat is that goods that come across the border are not identified as counterfeit goods when landed in Vanuatu. Vanuatu is a low-income per capita jurisdiction therefore low-price clothing and footwear is in demand. Protecting product brand and actively looking to identify counterfeit goods sold through the retail outlets in the likes of Port Villa is not a high priority for Vanuatu. The counterfeiting of currency is not an identified issue in Vanuatu.

## **Property related crime**

The occurrence of volume property crime (theft of vehicles, and other property is low in Vanuatu). The potential income generated from such crime is therefore consider low. The clearance rate (apprehension rate) for this type of crime is considered high. Most theft relates to property consumed by the offender. Property such as phones and laptops over represent the types of property stolen, other property such as bedding, mattresses, food, and soft drinks feature as desirable property. Given these items are considered 'attractive' there is likely to be an active marketplace in which stolen property is traded, however proceeds generated will be very low.



There has been a comparatively small number of larger commercial burglaries where 'cash' and the likes of 'grocery items' have been stolen. In recent years community information has, on all occasions, identified those responsible and the stolen goods and property have been recovered. If there are instances where stolen goods are sold (phones and laptops) it is probable that these transactions are undertaken with cash.

Offenders are generally young, and property is routinely recovered. The incidence of unlawfully taking a vehicle occurs but given the island environment vehicles are generally quickly recovered by the owners or police. Investigations do not identify opportunities for ML investigation.

There is an exception in relation to instances where staff thefts have occurred within commercial banks, involving the theft of bank funds. The values in context are modest.

## **Evasion of customs excise, duty, and tax - smuggling of goods**

Due to geographic isolation, goods must be smuggled via aircraft or sea vessel. The International airport in Port Vila is controlled by Vanuatu Customs and has a range of measures to support compliance of the declaration system which collects duty and excise from qualifying goods.

Large volumes of commercial goods arrive by boat. The two dominant ports are Port Vila and Luganville, both are controlled by Customs. There are however other ports that could be used by smugglers to bring goods into Vanuatu to evade a Customs presence. These locations could be used to smuggle goods (illegal and legitimate), with the intention of avoiding detection or with the intention of evading payment of excise and duty.

Most detected avoidance of excise tax, and smuggling relates to individuals who do not disclose or declare items that are subject to excise tax when crossing the border. There have been some instances of commercial excise evasion, related to cigarette smuggling and the commercial importation of the likes of building materials. Both cargo examination, routine random inspection and post clearance audits identify this noncompliance. Intelligence available to Customs does not reflect high value offending that would generate significant income that would threaten the AML/CFT system.

Compliance data identifies the case volumes, and the value of sanctions associated with non-compliance with the Customs Act of 2019. Over the last 4 years sanctions were imposed for non-compliance on approximately 90 occasions the average value of duty recovered along with associated sanctions is VT 142,000 (USD \$1,185). This average value demonstrates that income being derived from this type of activity is limited.

Compliance data identifies the case volumes, and the value of sanctions associated with non-compliance with the Customs Act of 2019. Over the last 4 years sanctions were imposed for non-compliance on approximately 90 occasions the average value of duty recovered along with associated sanctions is VT 142,000 (USD \$1,185). This average value demonstrates that income being derived from this type of activity is limited.

Vanuatu is a small developing economy total GDP 114B VT (\$956M USD). Average annual per capita income is 415,000 VT (\$3,500 USD) per year. It is not an economy that has a thriving market for high value or luxury goods. There is however demand for Asian sourced tobacco products.

There have been several instances involving the smuggling of cigarettes into Vanuatu, these instances have been detected in passengers arriving by air and via freight by sea. The limited interdictions of high-volume amounts of tobacco might suggest that smuggling of tobacco is occurring. A detection was made in November 2015 at the which involved 50,000 cigarettes detected concealed within sealed steel tubes (construction materials). The volume of this smuggling attempt reflects commercial intent and as a result prosecution was initiated. The result of the prosecution was that the importer was convicted and fined, and the cigarettes were forfeited and destroyed. A more recent detection occurred at the Port Vila International Airport. The airport detection involved the smuggling of tobacco in sealed Chinese green tea by two passengers who sought to evade related duty and taxes. The quantity of tobacco was not significant, and the passengers received administrative penalties.

Customs routinely increase focus on persons or vessels arriving from two Asian countries or Vanuatu citizens who have been working abroad. The amounts that persons would gain from non-compliance in most instances is modest.

**Case study: There is one case presently active at the Magistrate Court listed for plea on 10 December 2024 involving false declaration and defrauding the revenue of customs. The matter involved breaches of the Customs Act No. 7 of 2013. Subject to plea, it is anticipated that the offender will be require to pay 418,217 VUV to the government.**

Cash declarations in recent years average approximately 100 per year. These have all been declared at Port Villa international airport.

**Case Study: In October 2023 a passenger was detected departing Port Villa travelling with \$42,290 AUD. The passenger failed to declare the carriage of cash. The cash was seized and is currently held by Customs. It has subsequently been established that the funds related to a business activity, with the funds owned by a non-registered foreign exchange business (under the AML/CFT system). The matter was referred to the FIU and , the passenger has since registered with the FIU; however further checks are ongoing in relation to the cash.**

In October 2023, a Commission of Inquiry was established to examine whether there were breaches of law following the arrival of two foreign vessels in Port Villa. The vessels arrived from Vietnam with cargo on board that was not related to their status as fishing vessels. The vessels contained a range of goods including construction products and other equipment. There is an allegation surrounding these vessels against senior officers of the Public Service Commission and politicians. It is suggested that these individuals were beneficiaries of the cargo and that they took measures to avoid their excise obligations. The cargo on board has been released by customs. The Commission of inquiry will determine whether the allegations are accurate and if there was an intention to smuggle this cargo into Vanuatu to avoid payment of related excise and duties. It remains unclear as to where the goods originated from, and why they were being shipped to Vanuatu, and on behalf of who. Customs have made a public statement identifying that the vessel was in Vanuatu seeking a specific licencing right given by Vanuatu Fisheries as part of a state-to-state agreement between Vanuatu and Vietnam. It has been identified that the agreement was between a political party and the business owner under the guise of a state-to-state agreement. The proposal was for the Vietnam flagged vessel to conduct fishing activities in Vanuatu waters in an area in which a Vietnam vessel was not permitted to fish. In addition to this identifying an attempt to evade customs duty it also confirms the occurrence of corrupt practices.

**Case study: In the previously referred human smuggling case, the offenders behind this enterprise ensured that all the victims of this scheme entered Vanuatu with cash below the reporting threshold. This reflects that the offenders had some confidence in the effectiveness of border officials to detect undeclared cash crossing the border. This is a useful insight in context of smuggling risk.**

## Organized Crime

Organised crime occurs when a group of individuals who participate in an enterprise to engage in illegal activity for profit. There are no known organized criminal groups operating in Vanuatu. There are participants of transnational organized crime groups who have obtained Vanuatu citizenship pursuant to the citizenship for investment programs, it is possible such criminals have exploited vulnerabilities within the Vanuatu system to launder illicit wealth. Authorities are confident that if a serious organised criminal enterprise was present in Vanuatu, they would have awareness of such. For this reason, there is no known connection between organised crime and the public or private sector in Vanuatu.

Despite this the jurisdiction could become a transit country for proceeds of crime given its reputation which is influenced by the current backlisting by the European Union because of concerns regarding the citizen for investment programs.

# Tax Fraud

There is no personal income tax obligation for natural persons in Vanuatu (tax income is obtained via a VAT tax on goods and services provided). Tax obligations do exist for legal persons (businesses). The term 'taxpayer' relates to businesses with tax obligations.

Total revenue collected was VAT VT 10.6 billion (\$86M USD) in 2023. In addition, VT 1.4 billion (\$9M USD) was generated from non-tax revenue such as business licensing, rent tax, driving license issuance fees, road tax and casino gaming tax.

Inland revenue has current focus on audit, and application of the administrative framework in preference to pursuit of criminal justice outcomes. This is reflective of audit outcomes, and the absence of tax related prosecutions.

Auditing undertaken by the Revenue Authority identifies overclaiming expenses and understating or non-declaration of income by taxpayers as typical discrepancies. Auditing has not in recent years identified behaviours that require a criminal response and, as such, most instances are resolved with administrative sanction.

Non-compliance with tax obligations result in the reassessment of core tax and the imposition of penalties. Average recoveries (inclusive of penalties) from the 1,370 audits undertaken over the previous 4 years is approximately VT 360,000 (\$3,000 USD) per audit. Given value this reflects the risk to the AML/CFT system is modest based on value.

In the previous 5 years no Inland Revenue staff have been dismissed or investigated because of a corruption allegation. Authorities do not believe that corruption influences the audit selection process. Authorities also confirm that audits have been undertaken in relation to Agents involved in the investment for citizenship schemes, and of businesses controlled by political personalities and senior government officials.

It is recognised that large parts of the economy are cash intensive, however transaction value within the economy is generally low. Revenue officials consider that the likelihood of taxpayers (businesses) operating within Vanuatu committing high value tax crime, is limited, however it is acknowledged that this is qualified based on audit sampling. The relationship between the FIU and revenue authorities is weak and needs improvement, this may improve insights into the occurrence of this crime type.

**Case Study: A retail shop is operating under a Business License issued to a Ni-Van female. The business was managed by the license holder. It is identified that stock is supplied by a foreign national, who also collects the daily cash takings from the shop. The holder of the business license has confirmed that she is a nominee holder of the licence with the business beneficially owned and controlled by the foreign national. The nominee receives payment from the foreign national as an employee. The business derived income of more than 30M VT (\$250,000 USD) over the prior 4 years. A second retail shop operated by the Ni-Van female has also been identified. This second shop operates without a Business License.**

**The businesses are cash intensive (basic food and convivence shops) and non-compliance with tax obligations is suspected, the destination or 'use' of the cash collected each day has not yet been identified. The operation of a business by a non-residence (the foreign owner) is an offence under the Business Licensing Act (BLA) given the gross turnover exceeds VT 4 million. This case reflects the existence of an illegal business operation that is generating income, in non-compliance with the BLA and therefore its character suggests likely non-compliance the Value Added Tax Act (VATA) and Tax Administration Act (TAA) obligations. Although an isolated example, this investigation could indicate a wider problem.**

The authorities last prosecuted a tax crime matter in 2018. During 2018, 4 separate cases were prosecuted under the VAT Act s51(b) (fail to furnish returns when directed under VATA).

- Case 1: convicted of failing to furnish a return, fined VT 40,000 and in addition there was a tax recovery of VT10 million
- Case 2: convicted of failing to furnish a return, fined VT 40,000 and in addition there was a tax recovered of VT 15 million
- Case 3: convicted, fined VT 40,000 however no tax recovered.
- Case 4: convicted, fined VT 40,000 however no tax recovered.

Inland Revenue do not make referrals to FIU. The FIU has not made spontaneous disseminations to the Revenue Authority. During 2023 there have been no requests from foreign tax authorities or foreign LEAs seeking tax related information from Vanuatu taxpayers despite the investor visa programs and the citizenship by investment programs.

As identified, only legal persons have income tax obligations. However, the natural person who controls the businesses can be liable for tax avoidance. Parts of the economy are 'cash intensive' which provide opportunities for non-declaration of income for tax assessment purposes.

It is probable that there is financial intelligence that would provide improved insight into tax crime. It also probable that through lack of awareness that reporting entities are not identifying potential tax crime that can be reported. The operational relationship between the FIU and Inland Revenue should also be strengthened to improve the ability of authorities to identify tax crime beyond the audit process. The 'current state' relationship results in likely information gaps which reduce the abilities of the revenue agency to identify and respond to tax crime.



## **Violence for profit - robbery, kidnapping**

Kidnapping, robbery, or other crimes of violence undertaken to derive benefit, are recognized as potential predicate crime threat, however these types of crimes rarely occur. There are isolated incidents of street robbery occurring in Vanuatu. These incidents generally occur after dark and involve low value property, restricted to what a victim may have in their possession at the time. No STRs have been submitted related to this type of crime and therefore related ML is low risk.

# Sectoral Vulnerabilities

The NRA assessed a total of 20 sectors, comprising 12 financial and non-financial sectors, including banking institutions, insurance, as well as professional services/gatekeepers such as lawyers, accountants and company and trust service providers.

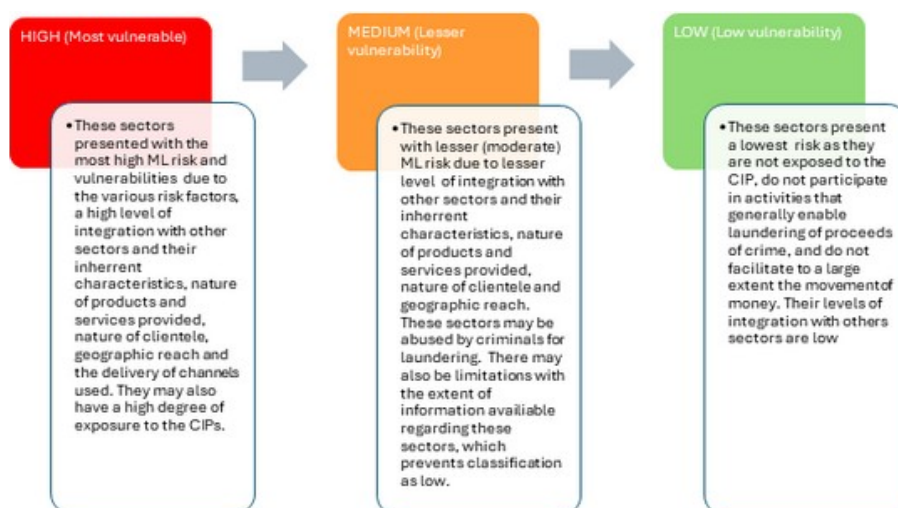
However, Vanuatu is overregulating the insurance sector for AML/CTF purposes as none of the insurance entities conduct underwriting or placement of life or investment related insurance and therefore, they do not constitute definition of financial institutions for the purposes of the FATF recommendations. Supervisory resources could be deployed towards other more vulnerable sectors. No underwriting or placement of life and other investment-related insurance is currently carried out in Vanuatu. Motor vehicle dealers and sellers of yachts do not constitute financial institutions for the purposes of the FATF recommendations. Supervisory resources could be deployed towards other high-risk sectors. Lack of analysis and data of the type and number of charities/NPOs in Vanuatu and those that may be “at risk” for TF. VFSC nor the VFIU have not yet identified the features and types of NPOs which are likely to be at risk of TF abuse or to identify the nature of threats posed by terrorist entities to the NPOs that are at risk. Small community-based micro-finance-style co-operative entities may not constitute financial institutions for the purposes of the FATF recommendations. Supervisory resources could be deployed towards other high-risk sectors.

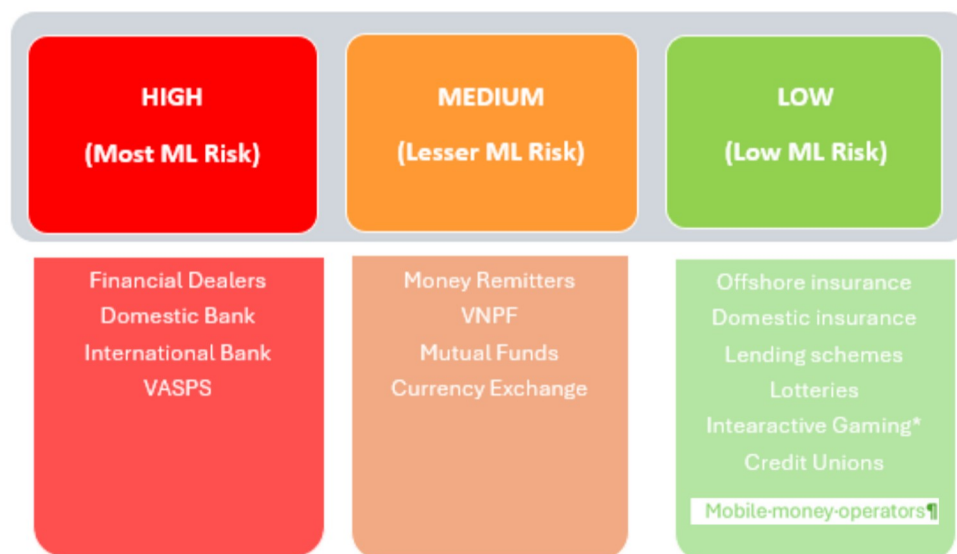
Characteristics and features of each sector vary significantly, resulting in differing associated ML/TF/PF vulnerabilities. Those sectors that are exposed to the CIP were also considered and risks incorporated accordingly.

The assessment methodology incorporated all aspects of the sectors including the number and size of relevant entities, information on product and services, clients and geographic location of activities, supervisory data, investigations and prosecutions statistics and typologies when possible.

The information was then validated by members of the supervisory working group and officials from its respective agencies, and the private sector.

The risk ratings were reached as per the following:





\*Assessed as low given there are no licenses issued under the new regime but if new licenses are being considered then the risk level will likely be high.

## Contextual Background

Pursuant to section 2 of the AML/CFT Act, a wide range of entities carrying out various businesses and financial services are defined as “Reporting Entities”. Section 9 requires that these entities be registered with the FIU who shall maintain a register of all reporting entities. Whilst the law requires that entities who carry on these business activities must not operate without registration, in practice there are several entities at present who are not registered. The FIU is working with these entities in order for them to meet the requirements. Throughout 2024, the FIU has been focusing on these entities and is in the process of setting clear deadlines for entities to register and complete the requirements. This includes passing information to banks with whom such entities bank with who may deny services. There are currently 7 FIU staff who cover approximately 400 – 500 reporting entities.

The landscape of reporting entities operating in Vanuatu are as follows:

Sector	AML Supervisor	Prudent ial Supervi sor	# of Entities	Financial Sector Assets	% of Financial Sector Assets
International Banks	FIU	RBV	9	USD 91.9M	4.91%
Domestic Banks	FIU	RBV	5	VT177.6B (USD1.495 B)	79.7%

Currency Exchange	FIU		31		
Insurance	FIU	RBV	32	VT4.8B (USD40.1B)	2.14%
Micro-finance/lending	FIU	RBV	4	VT276.2M (USD2.3M)	0.12%
Money Transfer	FIU	RBV	3	VT145.6M (USD1.2B)	0.07%
Other FIs (i.e. VNPF, VRDB, Credit Corp)	FIU	RBV	3	VT29.1B (USD244.5 M)	13.06%
Company & Trust Service Providers	FIU	VFSC			
Mutual Funds	FIU	DCIR			
Casinos	FIU	DCIR	4		
Gaming	FIU	DCIR	1		
Interactive Gaming	FIU	DCIR	1		
Lottery	FIU	DCIR	1		
Cooperatives	FIU		4		
Mobile Money Operators	FIU	DCIR	2		35

# Financial Dealers

## Background and Size of the Sector

An individual or legal person may obtain a Financial Dealers License (FDL) from the VFSC who oversees the registration and fit and proper determination of such applicants. The sector is subject to AML/CFT requirements under the AML /CFT Act and supervision for this sector is undertaken by the FIU.

All FDLs must apply through a Company and Trust Service Provider (CTSP). Since 2022, all FDLs must have a physical presence in Vanuatu, including a physical office in Vanuatu (they all have accounting software, trading platforms, employees etc). For this reason, FDLs also may open domestic bank accounts for their operations in Vanuatu. However, many have difficulties opening domestic accounts in Vanuatu and are forced to rely on home country banks to transfer monies to fund their local operations. For this reason, many client funds are held overseas and not in Vanuatu. At this stage, there are no FDLs who hold accounts with Vanuatu international banks.

Financial Dealers were a high risk in the previous NRA because their activities were largely offshore, and there was a general lack of awareness of ML/TF. Some licensees were operating without proper trading licenses from foreign licensing authorities and there was a lack of “face-to-face” dealings with potential licensees.

The rating of most (high) risk has been retained in this NRA largely due to the same factors that emerged in the earlier NRA as well as a more evolved understanding of the risks associated with this sector.

Currently, there are four licenses (Class A, B, and C and D) based on the type of transactions being conducted. It is important to note a license is required for the firm and any agents trading on their behalf although there are lesser requirements for the latter.

Class A licence includes the business of dealing in debenture stocks; loan stock, bonds; certificate of deposit; proceeds of Foreign Exchange); predominantly foreign exchange.

Class B licence enables the licensee to carry on the business of dealing in future contracts and derivative products (but not limited to futures and options);

Class C licence enables the licensee to carry on the business of dealing in shares in capital of a corporation; proceeds of precious metals; proceeds of commodities, subscribe for shares or debt instruments; a right under depository receipt; a right under a contract for the acquisition of securities);



Class D licence enables the licensee to carry on or purport to carry on the business of dealing in digital assets. A digital asset is defined as an intangible asset in digital form stored on a distributed ledger technology, such as blockchain, and representing a set of rights or values. There are currently no licenses issued under this category. Two license applications have been received under this category but rejected on the basis that they have not met the requirements.

There are currently 75 FDL licensees. This number was reduced from 600 following a full Enhanced Due Diligence review of all licensees in 2017. Of these, 45% of active licensees hold License Class A, B and C, with business activities focused on foreign exchange, precious metals, commodities and derivatives. 45% hold license class C dealing with derivatives and Contracts for Difference. 3% of licenses hold Class A&C and Class B. 2% hold class B&C and Class A. Currently there no licenses issued under Class D (virtual assets).

In terms of the size of the sector, FDL licensees conduct less than 10% of their activities from within Vanuatu relating domestic administration requirements with over 90% of the sectors operations occurring from offshore. 30% of FDLs are part of a group of companies, incorporated in foreign jurisdictions. Most of the ultimate beneficial owner of the FDL licensee originate from China and others are based in other countries including Australia and Hong Kong.

## **Products and Services**

Financial dealers offer a range of products and services, and each is tailored to the license that is obtained. Other licenses allow for products such as the trading in securities, derivatives, foreign exchange, commodities, precious metals, contracts for difference on securities and cryptocurrencies. Securities and digital assets represent the most vulnerable products offered by the sector from an ML/TF perspective.

## **Clients**

Involvement with clients can be both direct and indirect. The client base for FDLs vary for different licensees and all activities are offshore. Financial Dealers rely on the use of introducers who act as an intermediary between brokers and the Financial Dealer, although clients can also deal directly with the Financial Dealer in the onboarding process. Clients are generally overseas and can include PEPs and other high net worth individuals.

Some clients emanate from countries of money laundering/terrorist financing concern or weakness.

## Geographic Reach

Financial Dealers often conduct business in various regions around the world, including in some countries with money laundering concern. Most of the business conducted by FDLs occurs in the Asia Pacific region although some dealers have clients from the African region, Russia and China.

## Delivery Channels

Financial Dealers allow customer access to products and services through digital platforms that allow onboarding of clients and business relationships to be conducted on a non-face-to-face basis.

**Case study: An individual (who was employed by the central bank of his country and subject to a fraud investigation ) travelled to Vanuatu and applied for citizenship and then applied for a change of name at the civil status office. The individual was issued with a new name, and then acquired citizenship from Vanuatu. The person then applied through a CTSP for a FDL. The VFSC undertook an investigation on this individual and his previous background (under his previous passport). In undertaken the investigation the VFSC relied upon foreign law enforcement to assist with their enquiry. As a result of the investigation the individual was denied a FDL.**

## Conclusion

FDLs are still considered high risk in Vanuatu. Whilst there are no known ML investigations and very few STRs in relation to ML (and none in relation to TF or PF), these alone cannot determine risk. FDLs have a close integration with some domestic banks, and a very close integration with CTSPs, both also considered high risk sectors in Vanuatu.

In terms of the exposure to the CIP, some applications for FDLs have obtained citizenship through the CIPs, including individuals who have changed their names in the past. Whilst the VFSC carefully vets these applications, there remains some risk that new citizens could seek a FDL for ML/TF or PF purpose.

As per the prior NRA, this NRA again recognises that the Financial Dealers sector is a leading high risk sector for the following reasons:

- The integration with other high-risk sectors such as CTSPs and domestic banks.
- The transactional nature of the business that allows foreign clients to be onboarded and vetted by agents, and who then access products through online platforms without any face-to-face interaction.
- The clients of Financial Dealers originate from many regions and countries around the world and there may be some concerns around the sources of funds of some clients from countries of known money laundering/terrorist financing concern or weakness.
- The fact that a person who obtains citizenship by investment may obtain a FDL exposes this sector to potential ML risks given the risks identified by that programme and the difficulties in verifying identity information prior to citizenship; [6]
- The use of introducers due to the high number of foreign clients poses a risk of not adequately verifying CDD information, particularly as most of the CDD is conducted electronically and not face-to-face. The self-imposed practice of current VFSC staff is to take a highly sceptical position on all information provided by introducers and thoroughly review this information. As a result, significant numbers of clients fail good character assessments despite prior granting of Vanuatu citizenship. This mitigation is vulnerable given it relies on continued employment of key personal.

## International Banks

### Background and Size of the Sector

International banks operate in Vanuatu subject to the International Banking Act. This Act imposes licensing requirements on all international banks including the requirement to maintain a physical presence in Vanuatu. All offshore representative offices require the approval of the RBV. There is a strict licensing process in place requiring the licensees to demonstrate they are fit and proper to hold an international banking license, this regime is overseen by the RBV and supported by the FIU. The FIU supervises international banks for AML/CFT compliance.

In the 2018 sectoral risk classification, international banks were rated as high risk, there has been no information to suggest that this classification should change, and this sector therefore continues to be recognised as presenting a high risk for ML/TF.

International Banks are not permitted to conduct any domestic business. Whilst there are 10 registered international banks in Vanuatu, only four are currently operating. The remaining six banks hold a license but do not have customers and are not operating. This is mainly due to difficulties in obtaining correspondent banking relationships. Nine of the ten banks are registered with the FIU for AML/CFT. The remaining bank has not yet finalized its registration with the FIU.

[6] It should be noted that the VFSC requires background checks on applicants for FDLs including checks on previous passports owned by Vanuatu citizens who have obtained citizenship via investment.

Ultimate ownership in International Banks tend to be from nationals of Lithuania, China, Singapore, and Indonesia. The total assets held in international banks is USD91.9 million which represents approximately 4.95% of financial sector assets.

Beneficial owners of the international banks must adhere to fit and proper requirements imposed under the legislation. Whilst there is a requirement for there to be a physical presence onshore for each entity, the reality is that the beneficial owners of these entities are offshore and are largely directing activities from offshore. Whilst the IBs have established a local presence as required, generally the FIU has found that the onshore representatives are not directing the activities or making any key decisions in relation to the operation of the IB.

**Case Study: FIU found some adverse information in relation to three beneficial owners of one of the international banks, this has led to the FIU issuing notices to the bank to provide information pursuant to its obligations under the AML/CFT Act. Failure to provide this information will result in them being struck off the AML/CFT Register with resulting consequences. The FIU is awaiting receipt of the information requested.**

## Products and services

The international banking sector deals in a wide range of products including those that may be exploited by criminals. Vulnerable products and services offered by offshore banks include:

- Current accounts – considered to be a risky product due to the higher risk customer base which includes PEPs, foreign investors and international businesses and other foreign clients who may not have comprehensive CDD conducted. Current account customers tend to have the highest transaction volumes and can generate significant turnover. Further, customers tend to be CTSPs and FDLs in order to conduct international business outside of Vanuatu.
- International wire transfers - considered to be a higher risk product as there is limited oversight over the payment platforms being used to transfer funds internationally and limited oversight over the incoming and outgoing payments. Whilst some banks are filing monthly reports as required not all banks are complying with this. Of the reports received, generally outward payments go to countries such as Australia, Vanuatu, Seychelles, Malta, British Virgin Islands, South Africa, Estonia, Israel, Germany, Georgia, Hong Kong.
- Private banking services are considered higher risk - banks provide streamlined services to clients which cut across multiple high-risk sectors and can lead to cutting corners for certain influential and wealthy clients.

- Loans – loans are considered higher risk as they tend to include loans to PEPs and big businesses which are often highly profitable, reducing focus on AML/CFT requirements given the clients who bank with international banks (and similarly domestic banks) include those clients of significant standing in the community. This can lead to the prioritization of commercial decisions in preference to AML and other compliance requirements. Some court cases have occurred domestically which tend to prove this.
- Other services that may have ML risk include securities trading/investment, Advisory services, Term deposits, Internet banking and foreign exchange.

## **Clients**

- International banks interact with all types of customers including high risk customers such as PEPs, foreign investors, international businesses, and other international banks. Most high net-worth clients are related parties of each international bank. They service both individual and corporate clients with the former contributing approximately 19% of total deposits and the latter 81% of total deposits.
- Integration between international banks and other sectors in Vanuatu is high. The international banks will generally bank FDL and CTSP clients. Citizens who obtain citizenship by investment in Vanuatu may also obtain an account with an international bank in Vanuatu, enabling them to move funds around the world as a Vanuatu citizen as opposed to a high-risk jurisdiction of which they have dual citizenship.
- Some international banks are a group who for example also provide other financial services such as insurance, and as such there is group reliance for CDD. For others who do not operate in a group, they may rely on other intermediaries to undertake CDD which may pose challenges in verification of identity information.

## **Geographic Reach**

- While international banks are required to have a physical presence in Vanuatu, their operations are predominantly offshore as they are restricted from dealing with Vanuatu residents. Customers are based mainly in Asia (Indonesia, Malaysia, China and Hong Kong) and few in Australia, Europe and United States.

## **Delivery Channels**

Most offshore bank customers are non-face-to-face customers and thereby access bank services mainly through the internet or online banking. Customers are introduced to the bank through intermediaries, walk-ins or electronic channels. Most account openings and the majority of services are therefore non-face-to-face.

## Conclusion

Considering the above, the international banking sector is a sector which presents most risk to ML/TF or PF due the following considerations:

- A range of higher risk products and services, including international wire transfers, current accounts and private banking, are offered by the sector.
- Nature of the clients, including PEPs, foreign nationals and other sectors deemed high risk including FDL and CTSP licensees makes them more exposed for money laundering.
- All clients are foreign and therefore account opening and service provision is mostly on a non-face-to-face basis.
- The exposure to the CIP as an individual with a new Vanuatu passport may open an account with an international bank and move funds around the world poses serious money laundering risk
- The beneficial owners of the banks are all foreign and located offshore, making ongoing market entry fit and proper requirements difficult. Whilst there are processes in place, it poses verification and ongoing monitoring challenges.

## Domestic Banks

### Background and size of the sector

The domestic banking sector holds more than 80% of the financial sector assets., The domestic banking sector consisted of five banks (assets VUV 160.06 billion - \$1.3B USD), two are local/domestic banks (assets VUV 43.14 billion) and three are subsidiaries of foreign banks (Assets VUV 116.92 billion) plus the Reserve Bank of Vanuatu. The banking sector is comprised of 36 branches. Deposits were VUV 120.77 billion (\$1B USD) during 2022.

Three banks are subsidiaries of foreign banks (France, Australia and Papua New Guinea), two are wholly owned by the parent banks which are listed companies whilst one is 85% owned by the parent bank which is a cooperative bank. The other two are domestic banks – one of which is owned by the Vanuatu Government and VNPF and the other is owned by a private individual.

All the domestic banks have branches. Four of the banks have only one or two branches operating in Port Vila and the other two main urban centres in Vanuatu. Additionally, one of the foreign bank subsidiaries operates a foreign branch in the Solomon Islands. One domestic bank has 29 branches spread across the islands of Vanuatu as part of Government service delivery to the people.

All the banks are internationally connected through correspondent banks and payment aggregators for remittances and trade business transactions. The banking sector is well connected with other regulated sectors as funds flow to and from other regulated sectors such as non-bank financial institutions, currency exchange companies, money transfer services, insurance companies, credit unions, etc. This multi-faceted integration lends to the conclusion that the sector is one with most risk to money laundering as it can facilitate laundering through various corporate vehicles and structures.



## Products

The banks offer a variety of banking products and services. The higher risk products include:

- **Deposit accounts** – demand, savings and term deposits (multiple currencies) are considered to have a higher risk of money laundering. This is because the domestic banks hold the CIP agent accounts and are therefore receiving funds from around the world pursuant to that programme. The client base includes PEPs who will mainly bank with the domestic banks.
- **Letters of Credit** – Import and Export and Trade finance – for both sectors many of these occur outside the financial sector. In some instances, individuals have purchased high value assets abroad and created businesses to manage the purchase of those assets. The banks in such circumstances may on-board and manage such customers based on the size of the business rather than the ML risk.
- **Telegraphic/Wire transfers** are considered higher risk for money laundering as they allow the movement of funds to individuals and businesses domestically and abroad, including potentially to foreign countries of strategic interest or concern for ML/TF.

At the end of December 2022 total inward and outward remittance transactions through the domestic banking sector was VT300.6 million (\$2.5M USD) and VT182.8 million (\$1.5MUSD) respectively.

- **ATM services (Withdrawals and deposits)** – are considered higher risk of money laundering due to the cash deposit facility. Many banks have this facility in Vanuatu, and often some machines don't collect information on the individuals depositing cash. Persons can deposit several times and there is no verification of third-party deposits. This is noted by FIU and changes have been made. Whilst there is a threshold on the number of deposits that can be made (1 million VTU - \$8,250 USD), there are no controls on the number of deposits that can be made by an individual and who may deposit.
- **Private banking services** – as per the international banks, risks associated with private banking services are present as they are often applied for by higher risk and higher net-worth customers, including PEPs and other individuals. Banks may in the past have favoured high value client's business over the application of stringent AML measures. The services involved crosscut many other high-risk sectors and services.

Other services offered by domestic banks that may include ML risk are foreign exchange, loans and overdraft facilities, immigration bonds, online/internet banking, mobile banking, chequing accounts, debit card services, and SWIFT transfers.

## Clients

Domestic banks provide services to walk-in customers (no established relationship) specifically for foreign exchanges and money gram services. In addition, domestic banks bank CTSPs, financial dealers, domestic and international companies. One bank has recently ceased providing foreign currency exchange to walk-in customers due to the inability to properly conduct due diligence. This causes customers to seek more services from the currency exchange providers who are viewed as having less stringent processes.

Domestic banks accept agent accounts for the Citizenship Investment Programme. Therefore, all funds originating from the CIP will be deposited into domestic bank accounts and then be disbursed to the government funds and to the agent's accounts. Due to this product offering and its client base, this renders domestic banks highly vulnerable to money laundering, given the risks of the CIPs noted elsewhere in this assessment. Nevertheless, domestic banks are aware of the risks of the CIPs and hold payment to the government and agents pending confirmation of citizenship. Some domestic banks do not accept payments relating to the CIPs due to their concerns associated with the risk involved.

Less than 20 percent of total deposits in domestic banks are from non-resident customers. The top 20 depositors of the commercial banks are mostly corporate customers. Corporate customers are few in numbers but generally hold a higher portion of net worth (and therefore have larger deposits overall).

The client profile for domestic banks varies from public sector to private sector. In addition, some are farmers and those participating in labour mobility schemes in Australia, New Zealand and Fiji.

**Case study: In 2024, based on intelligence received, the FIU discovered that a domestic bank had onboarded a customer from a country of concern. The FIU conducted analysis of the intelligence and disseminations were sent to the Police and other relevant agencies. The individual of concern was an applicant of the CIP who had changed their name at the registry in Vanuatu and had applied for a bank account under the new name and new passport. However, the bank had not undertaken adequate due diligence measures to ascertain the prior history of the client. The individual of concern was from a country of money laundering and terrorist financing concern with known links to senior officials in that country. Investigation remains ongoing.**

## Geographic Reach

Generally, the domestic banks do not have involvement with countries of strategic concern or noted money laundering weaknesses. However, due to derisking domestic banks are not utilising traditional ways of establishing relationships with offshore banks which forces them to use payment service providers such as Western Union, who is not regulated in Vanuatu but whom has AML obligations to their home supervisors.

7- ITO refers to the offer for sale to the public by an ITO of a virtual token in exchange for fiat currency or another VA. An ITO is a means of raising funds for projects through digital platforms.

Exports and import remittances facilitated through the banks during the year was VT1.8 (\$15M USD) billion and VT2.5 billion (\$21M USD) respectively. None of these were made to or received from jurisdictions under FATF increased monitoring. Banks use branches, ATMs/debit cards, online banking, mobile banking and agents/merchants as delivery channels for their banking products and services.

## **Delivery Channels**

Domestic banks offer their products and services through a mix of face-to-face and non-face-to face channels. In practice, most transactions are conducted in person through over-the-counter transactions given the cash intensive nature of the economy and consumer preference.

## **Conclusion**

Given all the above, the domestic banking sector is considered a sector with highest risk of ML/TF. This is predominantly due to:

Its interaction with all the CIP funds, as well as other sectors of high risk such as FDLs and CTSPs

Serving a client base that includes high risk clients, such as PEPs.

Offering a range of higher risk products and services, including private banking services, letters of credit, and wire transfers.

## **VASP**

### **Background and size of the sector**

Virtual Asset Service Providers (VASPs) deal in virtual assets (VAs) – digital representations of value – that can be digitally traded or transferred and can be used for payment or investment. A VASP can convert fiat currencies into VAs, convert VAs into different forms of VAs, transfer VAs, safekeep and administer VAs and offer financial services a related to an issuer's offer and or sale of VAs.

In 2024 the VFSC undertook a comprehensive risk assessment of VASPs and issuers of initial token offerings (IITOs). That comprehensive risk assessment will be published independent of this NRA. Key risk findings associated with VASPs, and issuers of initial tokens are contained within this NRA national risk assessment with more detailed information contained within the VASP RA available from the Vanuatu FIU/VFSC website.

Although VA services are currently being provided by an international company the Virtual Assets Bill which provides a framework to regulate the sector is currently before parliament. The drafted Bill provides a comprehensive framework to regulate VASPs and ITO to manage, mitigate and prevent ML/TF risk. The bill requires every person carrying out the business of a VASP or a ITO to be licenced by VFSC. The VFSC is currently building capacity to supervise the sector and receiving training by experts in this field. VAs are not legal tender in Vanuatu and it is unknown if there are any domestic customers of this VASP, it is most likely that all transactions undertaken by the VASP occur offshore.

## Products

Virtual assets can be vulnerable to being misused by criminals to launder illicit wealth, finance criminal behaviours, fund terror related activities and finance the proliferation of weapons. Conducting transactions using VAs can provide anonymity in the absence of technology and specialised investigation capability to track trace and identify ownership. Transactions undertaken using VAs can also enable high speed cross-border transfer of wealth as part of criminal activity.

Keys risks emerge with on-ramping (the purchase of VAs) and off-ramping (the sale of VAs). VASPs which offer services associated with peer-to-peer sale and transfer (services which match seller and buyers for a fee) also have risk. Crypto ATMs (of which there are none in Vanuatu) are also recognised as presenting significant risk especially when cash can be used to onboard.

The absence of a regulatory framework means that the VASP currently operating in Vanuatu will be onboarding and off bordering transactions in unknown locations around the world outside of a supervised framework.

## Clients / Geographic Reach

Virtual assets are a growing type of investment asset with increasing volume of trade, and it is likely that more of the traditional financial institutions will connect to and enter the VA market over time.

Given the virtual nature of the assets, customers can engage with a VASP from outside Vanuatu's jurisdiction (including from countries which are considered high risk jurisdictions). Some customers may pay increased transaction fees to use technology with high levels of anonymity which is a red flag, as are the use of internet protocol addresses (IP addresses) associated with the dark net.<sup>8</sup> Although most VA transactions have legitimate purpose, and in some parts of the world VAs can be used to purchase cars, real estate and other property or services, it is also recognised that VAs have been associated with enabling fraud, extortion, ransomware schemes and the trade in illegal products and services on dark net websites.

## Delivery Channels

The provision of VASP services take place over the internet and can involve intermediaries which can present challenges for KYC and CDD requirements.

8- The dark net is an overlay network within the internet that can only be accessed by specific software configurations or authorizations which are designed to provide anonymity.



## Conclusion

The VASP sector is considered high risk given the non-regulation of the sector and the acknowledgment that a VASP has been operating from Vanuatu, using international companies (formed in Vanuatu) to provide a range of VA services and products. The absence of a regulated framework, coupled with an absence of technology, and capability to effectively supervise this sector may currently enable criminals to take advantage of this sector.

## MVTS/Money Remitters

### Background and size of sector

In the previous 2018 sectoral risk classification, MVTS were found to be high risk in Vanuatu. This assessment of risk has been slightly lowered to “medium” in this assessment, due to changes in the broader risk profile.

The Department of Customs and Inland Revenue is responsible for the market entry and prudential oversight of this sector. The FIU oversees AML/CTF registration, regulation and supervision in Vanuatu. MVTS are required to be registered with the VFIU prior to commencing business, as they are a designated reporting entity under the AML/CTF Act. Amended market entry requirements are now in line with the FATF standards (section 9(5) and 9B of the AML/CTF Act 2014). New requirements include meeting fit and proper criteria prescribed by Regulations and satisfying the Director that the source of funds used to pay the capital is acceptable.

The VFIU has taken steps to engage unlicensed MVTS using both open-source material such as business listings, tax listings obtained from DCIR, advertisements in the local paper, opening of business operations in town along with referrals made by banks when new businesses seek to open accounts with them. VFIU has also conducted outreach through publications on the FIU website, and has also issued a press statement confirming the requirement for reporting entities to register with the FIU in the local media. Vanuatu has begun to issue penalties to MVTS for a failure to register and has already undertaken enforcement actions. In total between 2016 -2018 the FIU has issued 19 compliance directions issued, 4 formal warnings/compliance warnings, and 2 penalty notices.

The FIU is responsible for the registration of MVTS and their compliance with the amended AML/CTF Act. The amended law now allows the Director of the FIU with notice in writing to suspend or remove a reporting entity from the register if the Director is satisfied on reasonable grounds that the reporting entity has failed to comply with a provision of the Act. The amended AML/CFT Act also provides for enforcement measures that may be taken by the Director of the FIU if they have reasonable ground to believe that a reporting entity has failed to comply with an obligation under the Act. Measures include formal warnings, penalty notices, restraining or performance injunctions or a direction to a reporting entity to remove a director, manager, secretary or other officer. The VFIU has engaged, provides guidance, and currently monitors all licensed MVTS in Vanuatu. Furthermore, the amended AML/CFT Act enables the Director to refuse entry on the registry if they do not meet the fit and proper criteria. The amended AML&CTF Act requires MVTS businesses to monitor an agent’s compliance with their AML/CTF Procedure Manual and to apply a group wide AML/CTF programme to its agents.

In terms of financial sector assets, money transfer remitters account for approximately 0.07% (total of VT14.6M (\$121,000 USD) in assets).

MVTS providers account for a large volume of cross-border transactions as clients pivot away from the domestic banks due to the costs and stringent requirements. Outward money transfers constituted the greatest number of transactions in 2022.

There are 6 MVTS registered with the FIU who capture them under section 2(n)(ii) of the AML/CTF Act if a person is collecting, holding, exchanging, or transferring currency or value, or otherwise negotiating transfers of currency or value, on behalf of other persons.

In terms of integration with other sectors, the money transfer sector interacts primarily with the banking sector.

Those owning and operating money transfer services tend to have beneficial owners based overseas with local management running within Vanuatu.

## **Products and Clients**

The MVTS sector engages in two primary activities that may be vulnerable to ML/TF: money remittances and business payment transfers. MVTS providers serve both individuals and businesses through both on-going relationships and occasional transactions. Clients include RSE workers, farmers, students and businesses with PEPs representing the primary type of high-risk client.

## **Geographic Reach and Nature of Delivery Channels**

The MVTS sector provides services in the Asia/Pacific region where some remitters are residing or working. The main corridors are Australia, New Zealand and New Caledonia.

Transactions are generally carried out face to face or face to face via an agent and, as such, do not generally provide for any anonymity. Delivery channels are not complex with clients entering branches to collect or send funds.



## Conclusion

The MVTs sector carries some AML/CFT risk. The sector provides products and services to potentially high-risk clients (i.e., PEPs) and provides a conduit for the potential movement of illicit funds into and out of Vanuatu.

While transactions have not been found to involve jurisdictions of concern for ML/TF or PF and delivery channels do not allow for anonymity, there have been two previous cases of ML involving the sector, suggesting that it is vulnerable to illicit activities.

Further, there are concerns that cash is moving into (and likely out of) Vanuatu outside the formal MVTs sector, this is because there is a gap between what authorities see coming through the formal financial channels versus the investments and assets being purchased in Vanuatu with cash. The use of Hundi/Hawala networks is likely although authorities have not to date uncovered any of these channels. This adds to the sectors vulnerability to money laundering albeit this activity is occurring on an illegal basis (non-registered MVTs) rather than within the formal sector. Authorities will continue to monitor this sector closely.

## Currency Exchange

Following the February 2018 sectoral risk classification workshop currency exchange were placed as medium risk, and this risk rating remains.

There are 31 registered currency exchanges with the FIU who capture them under section 2(n) of the AML&CTF Act if they carry on a business of exchanging currency or value. The sector deals in a limited range of products. It interacts with all types of customers including high risk customers such as PEPs, foreigners, domestic residents, and businesses, etc. Engagement is face to face with customers, and mainly walk-in.

It is noted above in this report that due to more stringent requirements of domestic banks in conducting currency exchange, more customers are drawn to currency exchangers due to a perceived ease of CDD measures.

Currency Exchanges are mainly situated in the Capital City only. Delivery channels is mainly over the counter exchange but most of their business operation transactions are conducted via the banking system.

Overall, the vulnerability of this sector to ML/TF/PF is rated as medium.

## Cooperatives

Following the February 2018 sectoral risk classification, Cooperatives were placed as medium risk, and this risk remains. There are 4 registered Cooperatives with the FIU who capture them under section 2(k) of the AML&CTF Act for their registration under the Co-operative Societies Act [CAP 152]. The sector deals in a range of products for savings and loans and for agricultural purposes. Cooperatives are set up and incorporated domestically with the owners/members situated in country.

It interacts mainly with rural communities outside in the provinces, etc. Cooperatives are scattered all over the country. Delivery channels include face to face interactions or through appointed agents elected to oversee the Cooperatives operations.

## Vanuatu National Provident Fund

The VNPF is fully owned by the Vanuatu Government and is regulated by the VFIU and the RBV. It currently has over 90,000 members, with over 6,000 employers and has approximately 8 billion VTU (\$67M USD) under management.

The VNPF offers Direct Loan Services to its members to provide financial aid in meeting common expenses and relief in times of crisis. Loans made through VNPF are low-interest and are guaranteed by member savings so there is no deposit required. Generally, there is an 8% pension contribution, made up of 4% paid by the employer and 4% at what the employee pays. Members include private individuals, as well as government officials. The VNPF operates under special legislation. The full payout for individuals is at retirement age which is 60 although some can receive a payout at 47 years old.

The client base for the VNPF is Ni-Vanuatu clients, including politicians, civil servants, business owners and other individuals. CDD is undertaken on clients and as they are only local people there is no anonymity issues

In general, the products and services offered by the VNPF are not generally high risk, payouts can only occur in certain circumstances (i.e. through either loans or at payout time). However, as a state-owned enterprise, the risks of this sector lie in its misuse by those running and controlling it. The size of the fund may be enticing for politicians and other corrupt officials to conduct frauds on the fund and recent cases have raised concerns about such conduct.

## Mutual Funds

Following the February 2018 sectoral risk classification workshop mutual funds were placed as low risk, this remains the case however it is recognised that risk is present given the operations of this sector occur mostly overseas.

There is 1 registered mutual fund with the FIU who capture them under section 2(r)(viii) of the AML/CTF Act. This mutual fund holds approximately 1% of financial sector assets.

The registered mutual fund interacts with all types of customers including high risk customers such as PEPs, foreigners, and businesses, etc. They are predominantly high net worth clients who are based overseas with operating businesses overseas. Given they are based overseas, there is little face to face interaction as CDD is undertaken online which poses verification challenges.

Delivery channels include the use of technology through online payment systems and while funds do not come to Vanuatu, non-face-to-face transactions are possible, which allows for the possibility of clients maintaining a degree of anonymity. Whilst the sector does not hold a significant portion of financial sector assets, the products and customers pose potential money laundering risks and hence it is rated have a lesser risk to money laundering and terrorism financing.

## Interactive Gaming

The government of Vanuatu offers casino operators, software, and service providers in the gambling industry, with a gambling license that allows gambling operators to conduct business related to casino, lotto, and other online gaming-related activities such as online casinos and sports betting. In July 2024, the Vanuatu government introduced a new process for obtaining a gaming license. This new process seeks to increase the sale of licenses by providing a fully online application process. The licensing process is promoted by Vanuatu Gaming Authority Limited (VGAL) a private company who is appointed as the official exclusive sole agent who promotes and sells gaming licences on behalf of the Finance Ministry. The Department of Customs and Inland Revenue is the regulator and operates the licensing system in partnership with VGAL. The VFIU is responsible for AML/CFT supervision.

VGAL promotes the gaming licences on the basis that Vanuatu is one of the worlds 'most business friendly jurisdictions' with low taxes, simplified regulations and offering fast approval processes.

VGAL operates on commission basis receipting an initial percentage of the application fee and then ongoing commission upon license issuance. The application fee is €5,000 and the annual license fee is €10,000.

The applicant for a license must undergo an approval process, including background checks on their gaming systems, financial security, and corporate competency. Ultimate beneficial ownership (extends to owners who own 25% or more of the license) must be established as well as source of funds used to fund the application. Applicants are required to provide a copy of relevant policies and procedures in place related to the operation of their business including AML/CFT policies and procedures. The licensees are required to operate lawfully in any regions that they operate, licensees are not permitted to operate in countries listed on the FATF blacklist.

The license must be held by a Vanuatu established company (requiring approval from the VFSC) which must have a physical presence in Vanuatu. All data associated with the gaming operation must be held (or be mirrored) in Vanuatu to support compliance processes. A bank account held in Vanuatu is required (CDD is therefore undertaken by a bank) for the purpose of tax payments, however operational banking activity can occur in another jurisdiction.

**Online gaming industry offers anonymity with players participating in an online environment without any face-to-face interaction with the provider of the gaming service. Players can open multiple accounts and make cross border payments of funds, requiring cross border investigations to reconstruct transactional activity. Given all the activities conducted by clients (players) of the licensee will be online and offshore, there are likely practical difficulties in verifying CDD, source of funds and the ability apply other AML measures. It may also be difficult to avoid the use of “mule” accounts that may be used by criminals to move money and launder it through this sector.**

Licences are valid for 15 years and Vanuatu Interactive Gaming Licences (VIGL) permit the use of both fiat and cryptocurrencies for gaming play.

As of October 2024, there have been no licenses issued, although various applications are believed to have been made. The regulator is required (pursuant to regulation) to prepare a code of practice for all licensees, this code is yet to be developed.

Authorities are unclear on how they will meet regulatory objectives to promote responsible gambling. This requires authorities to protect vulnerable individuals from gambling related harm and provide support and resources to those persons affected by gambling. This is required despite constant monitoring of all player behaviour irrespective of where in the world these persons are participating in gambling play. This could potentially involve hundreds of thousands, or possibly millions of players who are gambling through a Vanuatu issued license. The regulator is also unclear as to how they will approve the ‘software under which the game operates and potentially the source code for the game’ and how to approve the ‘control system for the game including its surveillance, security and systems for transferring and accounting for money’. These are highly technical regulatory responsibilities and authorities have not been provided with specific funding to establish the technical expertise and the IT infrastructure to undertake these functions.

It is noted within the regulations that the regulator can contract out their responsibilities and duties to perform the work of the regulator to any person. The requirements for this process are set out in the Government Contracts and Tenders Act. Transferring a government function and responsibility under 'contract' to a third party may incur cost much greater than any revenue received from any licencing revenue.

Even though no licences have yet been issued this sector is likely to be vulnerable should licenses be issued. Like the CIPs the private sector drives and promotes the issuance of licenses for commercial gain. As has been observed in the CIPs, criminals and wanted fugitives have obtained citizenship despite the existence of a framework which should prevent that occurring. This sector is recognised as being highly vulnerable in other parts of the world and presents significant AML/CFT challenges [9] . The approval and issuance of a license without a robust regulatory system being operationalised would be problematic and may ultimately deepen the AML/CFT reputational challenges currently faced by Vanuatu.

#### **Recognised online gambling site risks:**

- **Criminals in their own country can access and use sites which operate outside of the legal and regulatory regimes of their country.**
- **Criminals will likely recognise and use gaming services that operate from jurisdictions with weak anti-money laundering and anti-terrorism financing regimes – elevating risk for those countries**
- **Individuals who use online gambling sites to launder money frequently use e-wallets and payment service providers to facilitate deposits and withdrawals between bank accounts and accounts at gambling sites.**
- **Canada for example recognised that organized crime has targeted sites in foreign jurisdictions (accessible from Canada) depositing funds in offshore gambling sites using e-wallets and withdrawing funds using wire transfers to financial institutions in Canada. The gaming sites may not make taxable profit of such activities but are simply used to layer illicit wealth.**
- **Sites that accept virtual currencies are attractive destinations for those who seek to launder money proceeds of crime, using the sites to disguise illicit accrued wealth as 'winnings.'**
- **Criminals will mislead gaming site operators including providing false, stolen or misleading information including forged identity documents to create accounts which they then use to launder proceeds of crime.**

Given the sector is not active it is currently assessed as low risk but when licences are issued it will likely be high risk in the absence of the implementation of a range of controls that have not been established.

## Domestic Insurance

The domestic insurance sector is quite small and has limited vulnerable products and services. This sector has limited outreach to most parts of the country although it has presence in 19 foreign jurisdictions. Delivery channels are generally simple, and most transactions are made through banks. So far, no ML/TF/PF investigations or STRs involving products offered by the domestic insurance market have been recorded.

The insurance industry comprised of four local Insurance companies, two external insurers, one re-insurer, five brokers, five insurance managers, one loss adjustor and eleven agents. The domestic market, however, consists of five general insurers, one broker and eleven agents. The domestic financial position also reported growth in overall admissible assets by 24% to VT2.6 billion (USD22 million) compared to VT2.1 billion (USD17.94 million) recorded in 2022.

All local insurance companies have ownership structures that extend across borders with foreign branches, representative offices and subsidiaries. For example, four of the local insurers are a subsidiary of a regional insurance group and the fifth is registered as a branch. Domestic insurance is well connected with other regulated sectors as funds flow to and from other regulated sectors such as commercial banks (transactions are made via bank accounts).

All Insurance business is processed domestically through local insurance offices, insurance brokers and insurance agents. The domestic insurance sector deals with two types of customers: i.e.: direct customers who purchase products directly from the insurance company and indirect clients who purchase products through insurance intermediaries (brokers/agents).

Clientele of the sector is highly diverse and consist of both natural persons as well as legal persons and arrangements. The occupation or business of clients include all type of professions and businesses. The delivery channels offered by local insurance company do not generally entail anonymity. The transactional records are easily accessible to the relevant authorities when required as all important transactions (high value) are made through financial institutions (commercial banks). The domestic insurance sector is therefore assessed as having a low level of ML/TF risk.



## Offshore Insurance

The Offshore Insurance Sector consists of three international licensees, five captive licenses, one reinsurer and four brokers operating business offshore. The total premiums remitted offshore in 2022 through brokers was recorded at VT609 million or USD5 million. The total assets for international insurers stands at approximately VT 72 million (or USD615,000).

International companies, although registered locally have ownership structures across different countries which potentially increases the risk of money laundering. Brokers are part of business conglomerates that have cross shareholdings however, they are also well connected with other regulated sectors such as banks.

The offshore insurers have international operations whilst maintaining physical presence in the country, manned by managing directors. Clientele are dominantly offshore however, local offices, manned by managing directors are maintained as per the requirements of the Insurance Act. Insurers business are predominately based offshore and they offer a wide range of products and services. The product offered includes workman compensation, public/product liability, medical & repatriation, marine hull & liability, industry special risk, contractor all risk and aviation (hull, spares & liability). Insurance companies tend to deal in multiple currencies.

The policyholders are generally both individuals and businesses. Most dealings are undertaken by insurance brokers who act on behalf of their clients. 2022 statistics demonstrate an increase of 129 percent of premiums remitted offshore through brokers. The maturity of cash transactions for payment of premium and claim payout is paid through banks. Banks have procedures on AML/CFT due diligence particularly on source of funds thus somewhat reducing risks for this sector.

In terms of clientele, as stated above the range of customers include individuals, businesses, and companies. The beneficial ownership structure of those clients who are legal persons and arrangements tend to be simple and low risk regarding ML/TF abuse. Most policyholders are companies seeking cover offshore where such cover is not available locally. Companies conduct secondary fit and proper checks as primary checks are conducted by commercial banks during the account opening. The delivery channel offered by insurance companies includes through insurance broker, agent, captive insurer (direct), international insurers (direct). The transaction report is easily accessible to the relevant authority when required.

As mentioned above, most transactions are made through bank transfers and bank deposits. This sector is less cash intensive. Premium and claim payouts are facilitated through bank transfer with multiple checks in place that may therefore reduce risk. So far, no investigation or any ML/TF STR involving offshore insurance products or services has been recorded.

The sector is therefore assessed as having a low level of ML/TF risk.

## Mobile Money Operators

Mobile Money Operators (MMOs) have emerged as pivotal players in the Pacific's evolving financial landscape, offering digital payment and remittance solutions tailored to geographically dispersed and underserved populations. Leveraging widespread mobile phone penetration and agent-based networks, MMOs such as Digicel and Vodafone have introduced mobile-wallet services across countries including Vanuatu, Fiji, Samoa, Tonga, Papua New Guinea, and the Solomon Islands. These platforms enable users to perform basic financial transactions—such as person-to-person transfers, airtime top-ups, bill payments, and international remittance receipt – without needing a traditional bank account. In many Pacific Island Countries, mobile money has become a cornerstone of financial inclusion, particularly for rural communities and seasonal workers reliant on remittances from Australia and New Zealand.

MMOs operate within complex regulatory environments and face challenges including low digital literacy, infrastructure gaps, and AML/CFT vulnerabilities. As the sector matures, national authorities are increasingly focused on integrating MMOs into broader financial integrity frameworks, ensuring that innovation is matched by robust oversight and risk mitigation.

Digicel's MyCash is a mobile wallet available to Digicel Vanuatu subscribers via the MyCash smartphone app. Users can send and receive person-to-person transfers, top up Digicel prepaid accounts, pay bills or merchants via QR pay, and withdraw cash at any MyCash-agent location. International remittances into MyCash can be sent from Australia and other Pacific corridors, with funds credited in VUV and SMS notifications. Wallet and transaction limits are aligned with regional Digicel parameters (e.g. FJD10,000 balance cap; FJD5,000 daily turnover) and all customers must register with government-issued ID and set a PIN, ensuring KYC compliance against Vanuatu's AML/CFT requirements.

Vodafone's M-Vatu service features as a mobile wallet platform via a dedicated smartphone app. M-Vatu allows subscribers to deposit (cash-in), withdraw (cash-out), send domestic P2P transfers, top up airtime, and settle utility bills or Vodafone invoices directly from their mobile handsets. Registration requires in-store ID verification (passport, VNPF card, driver's licence or national ID) and activation via SMS code, embedding essential CDD controls. International inbound remittances channels enable instant crediting of M-Vatu accounts from Australia and Fiji, strengthening financial inclusion but also introducing cross-border ML/TF considerations.

Both MyCash and M-Vatu have expanded rapidly across Vanuatu's urban and rural centres, leveraging agent networks and major telecom footprints to reach previously unbanked populations. Commercial banks also recently began to integrate MMO wallets with Vanuatu's banking sector. Key ML/TF risks for the MMO sector include potential misuse of small-value P2P transfers for layering, the aggregation of funds between wallets and cash agents, and informal "walking around" cash-outs. Mitigating measures in place are mandatory KYC at registration, transaction monitoring by Digicel and Vodafone compliance teams, automated daily limits, and periodic reporting to the FIU.

## Mobile Money Operators

The AML/CFT framework in this newly assessed sector is further supported and strengthened by the Vanuatu FIU as the relevant supervisory authority by ensuring that the AML & CTF Act, regulations, guidelines and policies are equally applied by the sector, including risk-based enhanced due diligence, monitoring of transactions and STR reporting. The VFIU also conducts regular offsite examination of the MMO sector to ensure the following:

- Appointment and registration of a dedicated AML Compliance Officer.
- Submission of their annual registration and audit report to the FIU.
- Internal AML/CTF policy and procedure manual.
- Licencing and registration framework by DCIR for business operation licence and VFIU for registration as a reporting entity under the AML & CTF Act.
- Screening of remittance transactions for TF and PF purposes against UN and other lists.
- Detection and reporting of suspicious transaction reports.
- VFIU has undertaken non-compliance actions by issuing warning instruction for untimely and non-submission of their updated annual registration and procedure manual.
- VFIU, VPF and other competent authorities have accessed MMO's customer records, including transaction records for the profiling and investigation of ML, serious offence and scams.

There have been a few known fraud or criminal prosecutions involving Digicel MyCash and Vodafone M-Vatu in Vanuatu, however, these involved SIM-swap fraud, agent collusion, social-engineering & phishing to steal PINs, isolated merchant QR-code tampering, and a related non-mobile-money scams that involved passports, and not the actual mobile wallets. A case was reported on Asian nationals for operating an internet scam linked to a crypto type Ponzi scheme in Vanuatu. While not directly tied to MMOs, the case highlighted how digital platforms in Vanuatu could be exploited for transnational fraud, especially when MMO international remittance services will expand to other countries in the future.

### ML Risk Profile for MMOs

The money laundering risk posed by mobile money operators in Vanuatu, namely Digicel MyCash and Vodafone M-Vatu, is assessed as low/moderate, reflecting existing controls on transaction and balance limits, with some identified vulnerabilities. Internal compliance reviews and typologies suggest active risks such as agent collusion, SIM-swap fraud, and wallet misuse via social engineering. Although wallet limits and closed-loop features constrain large-scale laundering, small-value structuring, wallet aggregation, and informal cash-outs may facilitate layering and placement. Inbound remittances from foreign jurisdictions, particularly Australia and New Zealand, via channels like Rocket Remit and KlickEx add some cross-border exposure where onboarding controls or transaction monitoring may be weak. Limited interoperability between wallets and bank accounts further reduces laundering avenues. Mitigation and regulatory controls could be further strengthened on KYC processes, enforcing automated transaction rules, auditing agents, and providing MMO sector-specific red-flags and indicators for suspicious transaction reporting. In 2024, two STRs were reported by this sector.

# Mobile Money Operators

## TF Risk Profile for MMOs

The terrorist financing risk associated with mobile money operators in Vanuatu is considered low, reflecting Vanuatu's limited TF threat environment and the sector's restricted transactional capacity. MMO services are largely domestic, capped at modest wallet limits, and predominantly used for everyday payments and remittance receipt from low-risk jurisdictions. There have been no known or reported TF cases involving the MMO sector, and Vanuatu has not been identified as a conduit or target for terrorist networks. Nonetheless, some there are some residual vulnerabilities such as, inbound remittance flows could potentially be exploited by third-party actors acting on behalf of terrorist groups, this is mitigated by mandatory targeted TF screening and sanctions-list enforcement. Ongoing training and strengthening institutional awareness and integrating MMOs into national TF typology development will be also important as Vanuatu advances its AML/CFT framework.

## PF Risk Profile for MMOs

Although MMO sector in Vanuatu pose a low risk for PF, there are some vulnerabilities.

MMOs like Digicel MyCash and Vodafone M-Vatu primarily facilitate low-value domestic and inbound remittance transactions. These are unlikely to be used for financing the acquisition or movement of weapons of mass destruction or related materials. Wallets are capped (e.g. ~VUV 530,000 balance limit) and do not support direct transfers to international bank accounts or suppliers. This reduces the risk of MMOs being used to fund procurement chains linked to proliferation. There are no STRs or other reports, prosecutions or advisories involving MMOs in PF-related activity. Vanuatu's FATF follow-up reports also did not flag MMOs as a PF concern.

International remittance corridors are mostly linked to Australia, New Zealand, and Fiji, none of which are PF-sanctioned jurisdictions. There are some residual risks that stem from the absence of targeted PF screening and limited awareness of UNSC Resolution obligations. As MMOs expand financial access, national authorities would need to integrate tighter PF controls into mobile-money regulation, mandate sanctions list screening at onboarding and transaction stages, and raise compliance awareness across digital financial service providers.

Overall, ML and TF risk for MMO in Vanuatu is currently assessed as **low**.

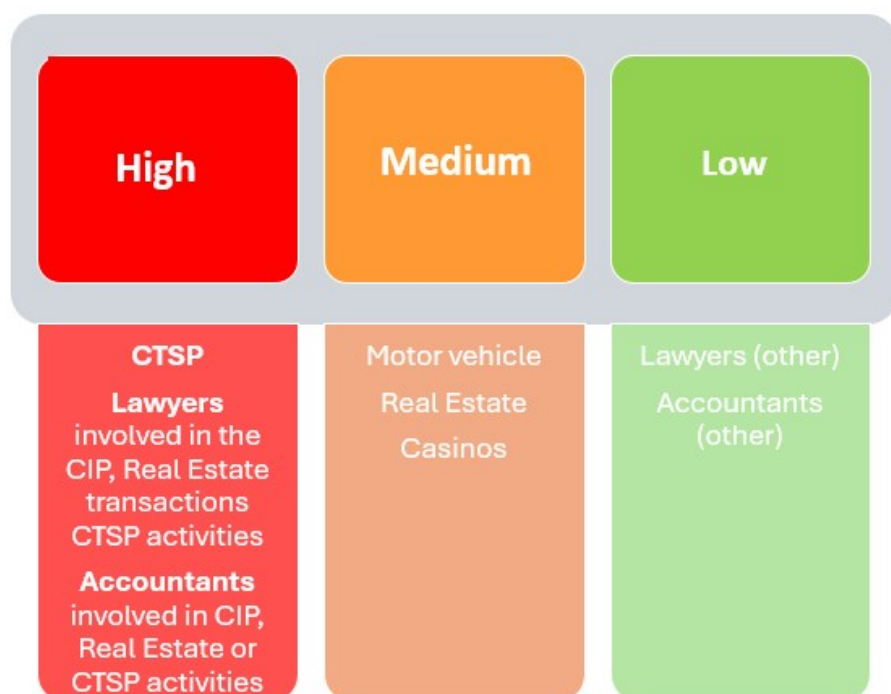
PF risk for MMO is assessed as **low**, but not negligible.

## Lotteries

Following the February 2018 sectoral risk classification workshop lotteries were placed as low risk, and this risk level remains. There are four registered lotteries which are reporting entities, captured under section 2(f) of the AML&CTF Act and the Gaming (Control) Act or the Lotteries Act. The sector deals in a limited range of products and interacts with all types of customers including high risk customers such as PEPs, foreigners, domestic residents, and businesses, etc. Lotteries are mainly situated in the Capital City only. Delivery channels include the use of technology, but most transactions are conducted via the banking system. There have been no identified instances of money laundering through this sector. It currently holds less than 5% of the financial sector assets and is considered low risk for ML/TF.

## Money Lenders

In the February 2018 sectoral risk classification workshop money lenders were not included. Money lenders are mostly small scale locally owned businesses with the majority owned/operated by locals. There are 215 registered money lenders with the FIU who capture them under section 2(r)(i) of the AML&CTF Act. The sector deals in a limited range of products including those that may be exploited by criminals, including money lending and refinancing. It interacts with all types of customers, including potentially high-risk customers such as PEPs, etc. Money lenders are mainly situated in the Capital City but there are a few in the larger towns in other provinces. Delivery channels include mostly face to face interactions or use of technology with most of their business operation transactions conducted via the banking system. Money lending is a cash intensive business with most of its customers and owners being locals. Whilst this may raise the risk of ML/TF, in the context of other sectors considered in this report, money lenders are rated as a low risk of ML/TF.



# Designated Non-Financial Businesses and Professions

## CTSP

The February 2018 sectoral risk classification identified CTSPs as high risk. This was mostly because a full supervisory regime was still in the process of being established. Since then, the VFSC has put in place a supervisory team overseeing the CTSP sector for prudential and licensing requirements, whilst the FIU oversees AML supervision. There are now seven people responsible for supervision of CTSPs and other sectors in the VFSC and two in the VFIU. Notwithstanding the increased supervision and oversight of this sector since the last risk assessment, this sectoral classification has also found that CTSPs continue to present a high inherent ML/TF risk for reasons set out below.

### Background and size of the sector

There are different types of CTSP licenses available in Vanuatu and in total there are 66 licenses currently issued.

- **A CTSP license** authorizes the licensee to provide company and trust services. Trust services include services in relation to the creation of an express trust other than a legal practitioner, creation and management of companies, services of a professional trustee, protector or administrator of a trust or settlement, managing and administering a trust settlement and trust services as prescribed within the CTSP Regulations. In total there are currently 8 active CTSP licences
- **General CSP License** – A GCSP license authorizes the licensee (legal persons) to provide Company Services only. This includes general administrative services, providing a registered office, providing a registered agent for an international company, acting as a director or nominee shareholder or nominee member of a company and any other company services related to these services. The main difference between a GCSP and a CTSP is that the GCSP is not able to create or manage trusts. **Currently there are 18 general licences.**
- **Limited CSP License** – A limited CSP License authorizes the licensee (legal persons) to provide company services from the incorporation and administration of a company up until its dissolution. This will also include providing a registered service, providing an accommodation address and providing a registered agent for an international company. A LCSP cannot act as a director or shareholder of a company. There are currently 16 limited licences.



- **Directors license** – A Directors License authorizes the licensee (natural person) to act as a director of a company. Generally, this applies to individuals who seek to act as a director of a company that the individual is not involved in. An individual who acts as a director of their own company does not require a Directors License. There are currently 23 active Directors Licences.
- **A special Trust License** will authorize the licensee to administer specific customary land on behalf of the customary landowners. It does not authorize the holder of the licensee to offer trust or company services other than in connection with the administration of the customary land. Only local individuals can apply under this category. There is currently only 1 active licence.

Each category of license must register also with the FIU pursuant to the AML/CFT Act. There are currently 2 CTSPs, 6 GCSP and 2 LCSPs registered with the FIU, hence not all CTSPs are registered reporting entities as is required by the AML/CFT Act.

## CTSP license

The sector deals in a range of products including setting up and managing international and domestic companies, at present, there are 2278 local companies and 693 International companies [10]. CTSPs also set up and manage trusts for locals or foreigners, the risks of which are considered separately in this report [11]. Products also include the application for banking licenses, insurance licenses, and FDLs. This raises the risk of this sector as it has a high integration with other sectors that are also considered to have higher risk.

These products have been identified as vulnerable for ML in international ML typologies. CTSPs interact with all types of customers including high risk customers such as PEPs, foreign nationals, legal persons/arrangements, as well as domestic residents and domestic businesses.

CTSPs rely on third party introducers who have processes and procedures in place to mitigate the risks associated with third party reliance including obligations under the AML/CFT Act to undertake full CDD verification. However, there are challenges for entities in Vanuatu to consistently monitor foreign client's activities, particularly once the business relationship is established. Some clients come from various geographical regions from which it may be difficult to obtain verification data, which can raise the risk that entities are not properly able to monitor and verify full CDD and business activity information. Whilst CTSPs are under a duty themselves to collect and hold this information, the risk associated with inadequate verification of such information is high. Further, licensees do not consistently monitor client activities on an ongoing basis after onboarding.

**Case study: VFSC granted an individual a CTSP license. However, subsequent investigation and a background check by the VFSC found that one of the CTSPs clients was identified to be a criminal. This established that the licensee had not undertaking comprehensive CDD on this client, the license of this CTSP was as a result revoked.**

[10] Data up to date as of September 2024 (source: VFSC)

[11] Refer legal persons legal arrangement risk assessment page xx

It is believed that some CTSP and GCSPs receive payments in cash from clients. CSTPs and GCSPs have obligations to file Cash Transaction Reports ('CTR') to the FIU whenever cash received over the counter or directly from a client exceeds the 1,000,000 Vatu (\$8,300 USD) or its equivalent in a foreign currency as prescribed under the AML & CTF Act. Upon FIU's spot check or targeted onsite examination, information regarding cash transactions can be obtained.

The location of the CTSP operation depends on the types of products being offered. For CTSPs offering FDLs, clients would be predominantly located overseas. For those involved in setting up domestic local companies their clients are mainly local.

Currently it is estimated 60% of CTSPs target the domestic market, and 40% target the foreign market. Some of the clients emanate from jurisdictions of known money laundering weakness or concern. Clients are generally from South Africa, China, Vietnam, Philippines, European countries – Italy, Spain, Cyprus, UK, Turkey, Russia, New Zealand and Australia.

Delivery channels include the use of technology (online onboarding and follow-up) and face to face interactions. CTSPs also use nominees to act on their behalf in carrying out their functions including director and secretarial services. Nominee sign a declaration to identify their 'nominee status' and these must be available for review by VFSC during onsite inspections of a CTSP.

## **General CSP**

General CSPs are also considered higher risk for the same reasons outlined previously for CTSPs as they broadly undertake the same scope of work except for that related to trusts. As such, the remaining considerations such as the use of introducers, potential high-risk clients and the use of nominees all apply equally to GCSPs. For this reason, General CSPs are also considered a higher risk category of license.

## **Limited CSP**

Limited CSPs are considered lower risk as they are predominantly involved in local companies and tend to focus on administration of domestic companies. The sector deals mainly with Ni-Vanuatu clients who find it expensive to deal with other CTSPs. Limited CSPs generally complete forms on behalf of clients, register a company (generally to run local businesses). Some risks still apply to this category of license, however generally the risk of money laundering is less than a CTSP or a general CSP.

## Directors' licenses

An individual can obtain a directors' licence from the VFSC. A Directors licence enables a person (or company) to undertake director services on behalf of other companies. Holders of Directors Licenses are predominantly local, and all are residents of Vanuatu who act as Directors for the local companies. In terms of risk, Directors may unknowingly find themselves involved in illegal activities of the companies in which they are appointed to. As companies in Vanuatu are considered to hold risks, this in turn leads to potential risks for Directors although those risks are not considered as high as CTSP and GCSP licensees.

## Conclusion

Overall, the rating of high ML/TF risk has been maintained as high for the CTSP and the GCSP sectors. The limited CSP and Directors pose lesser risk than CTSP and GCSP noting there are still risks. The special trust license generally is considered low risk. The key areas of concern particularly around the CTSP and GCSP include:

- The client base includes foreign nationals, some of whom emanate from countries of potential money laundering concern. This raises market entry and ongoing verification risks.
- The use of introducers who may undertake client CDD for CTSPs.
- The use of nominees by GCSPs and TCSPs.
- The above risks are weighed against the fact that the FIU has not received any requests from foreign counterparts for information on trusts and companies established in Vanuatu. The VFSC do receive approximately 1 -2 per month from foreign regulators – such requests for information are generally in relation to Vanuatu TCSPs trying to incorporate information in other countries.

Overall, the rating for this sector is considered high.

## Lawyers - Focused on CTSP, CIP, and Real Estate

The roles of lawyers in facilitating the laundering of proceeds of crime is well established. In a country like Vanuatu that offers offshore services, particularly trust and company services for offshore vehicles, the potential risks of lawyers being knowingly or unknowingly used to launder money is evident.

There are approximately 20 lawyers in Vanuatu who provide an array of different legal services. The FIU is the sole AML & CTF regulator for legal practitioners or lawyers who provide services captured by the AML & CTF Act, however, legal practitioners may apply to the Vanuatu Law Council to register as a legal practitioner as required under the Legal Practitioners Act [CAP 119]. The law council provides oversight on the conduct, qualification and fitness or suitability of the legal practitioner, however, it does not regulate the business side of the practitioners.

## Accountants- Focused on CTSP, CIP, and Real Estate

As is the case with lawyers, certain accountants are captured under the AML/CFT Act if their activities fall within the following categories:

1. buying or selling of real estates, business entities or properties.
2. managing of currencies, securities or other assets.
3. managing of banks, savings or securities accounts.
4. organising contributions for the creation, operation or management of legal persons or legal arrangements;
5. creating, operating or managing legal persons or legal arrangements

There are seven registered accountants with the FIU who provide such services. The accountants registered are those which are CTSP or GCSP licensees who are providing bookkeeping and audit services, whilst providing company and trust services. Out of the seven accounting firms registered, five are GCSPs, one is a GCSP offering legal services (law firm) and one is a CTSP.

For their Vanuatu clients they mainly provide accounting and audit services. Services provided to international customers predominantly relate to activities (i), (iii), (iv) and (v) of the services listed above. Following the amendments to the International Companies Act which restricted international companies from carrying on business in Vanuatu, international companies have shifted their business operations overseas creating a loss of market share for the accounting firms.

Some accountants are also registered agents for the citizenship by investment program, which can increase the ML risk as they may offer many services to clients who have obtained citizenship by investment. Their role in this process includes facilitating the application process and submitting the application to the FIU and ensuring that the prescribed application fees are paid.

In addition to the prior described activities the registered accountants also provide general accounting and bookkeeping services. Recently, accountants have been assisting local clients with the creation and management of legal persons or arrangements and submitting documentation on their client's behalf as they provide registered office services to their clients under their CTSP license.

All accountants registered with the FIU are domestically owned and operated. They are mainly based in the capital, and none are part of the big international accounting groups. Accountants accept cash over the counter up to a threshold of 1 million vatu (\$8,300 USD) which is the reportable amount for their sector but most in practice will not accept cash and prefer for all transactions to be conducted via the banks. All other financial transactions for their clients and the business are conducted via the banks. As there is also a FIU requirement for CTRs to be filed for all cash transactions over the value of 1 million vatu, payments are generally made electronically via the banks.

Client are mostly from Australia, New Zealand, and Vanuatu with some from Fiji, PNG, New Caledonia, Taiwan, and United States. The common services being sought from accountants are those relating to company and trust services provided by the accountants. Accountants with CTSP or GCSP licenses have the upper hand in attracting foreign clients as they have the combination of services (accounting & CSP) readily available for them. Such services include providing physical office space, administration services, nominee directorship, nominee shareholder, managing assets (trustee), etc.

Given the presence of nominee companies owned by the accountants and their engagement with foreign and non-face to face clients, accountants may in part conceal the underlying shareholder or director through their nominee companies. CDD procedures may not be fully utilized or are underperformed to maintain their relationship and preserve their flow of revenue. Their customer types are locals, expatriates, partnerships, local companies, international companies, charitable organizations, and PEPs. Foreigners are considered as high risk because they may be evading tax laws in their countries of origin and investing or banking their monies offshore using these accounting firms. Similarly, PEP clients may use nominee ownership to conceal their wealth to avoid declaration of wealth as part of the Ombudsman's Office requirements. Some clients are non-face to face which can pose difficulties in verifying CDD information.

STR submission from accountants are rare (5 STRs from lawyers/accountants in the last five years), but through ML investigations it has been identified that accountants had assisted in facilitating ML schemes either with or without their knowledge.

**Case study: Information was obtained by the FIU via a STR concerning a locally incorporated accounting firm who had received funds from person 'A'. Person A is closely associated with the former owner of the accounting firm (person 'B') who had been convicted for tax fraud and tax evasion. Upon his conviction, his son, person 'C' had taken over the accounting business. An amount of AUD 1.2 million was transferred into the firm's bank account in Vanuatu from a bank account in Country A owned by person A's family Trust.**

- **Person A owned 2 companies which had been managed by the accounting firm for over 17 years. The FIU filed a report with the police on grounds relating to a ML crime whereby funds transferred into the account could be;**
- **Proceeds of crime accumulated by person B and person A during the period prior to person B's conviction;**
- **Possibility of false accounting records to hide the proceeds of illegal activities (tax evasion/fraud);**
- **Possibility of conflict of interest, whereby, liquidator for person A's companies is the accounting firm.**

**As such, the bank declined or cancelled the transaction and sent the money back to the Australian bank account. The Australian police then conducted an investigation on the source of the funds.**



Overall, accountants (who engage in specified activities) as a sector are vulnerable due to their roles in the creation of legal persons and arrangements given Vanuatu has an offshore sector which has recognised money laundering risk. Accountants have been found to have deficient CDD processes and given they can attract foreign clients the verification of CDD data may not be strong. This combined with the high-risk activities they engage in leads to the conclusion that this sector has higher vulnerability to ML/TF.

## Real Estate

Real Estate agents are regulated by the FIU for money laundering and are captured by the provisions of the AML/CFT Act.

There are 127 registered real estate entities with the FIU. In Vanuatu, the purchase and sale of land is only allowed for leasehold title (the maximum term of lease is 75 years). There is no freehold land in Vanuatu it is either leasehold land or customary land which is owned by collectives of indigenous owners.

This sector interacts with various clients, including those who may be high risk for ML/TF such as PEPs, foreigners and via legal persons and arrangements.

Real estate agents are predominantly located in the capital. The CIP further exposes Vanuatu property market to laundering with new citizens being able to acquire leasehold property.

Most business transactions are conducted through the banking channels; however, properties have been known to have been purchased with cash.

## Conclusion

Because Vanuatu does not impose taxes, the purchase of property in Vanuatu could make it desirable for money laundering. At present, it is considered desirable for purchase by both locals and foreigners (predominately Chinese who have relocated to Vanuatu). There are no restrictions on the purchase of real estate by foreigners. As Vanuatu does provide offshore services and is considered a tax haven, the real estate market is vulnerable to money laundering by both natural and legal persons seeking to launder money who have also established structures in Vanuatu.

Furthermore, whilst real estate agents are subject to AML/CFT measures there is no licensing regime that ensures that only fit and proper persons may control a real estate business in Vanuatu. There have been very few STRs received from the real estate sector.



# Motor Vehicle

Following the February 2018 sectoral risk classification workshop motor vehicle dealers were placed as medium risk, and this level of risk remains.

The purchase of motor vehicles with proceeds of crime occurs. In Vanuatu, the purchase of motor vehicles is thought to be used by criminals for private use and to disguise the proceeds of crime. For this reason, motor vehicle dealers are a reporting entity under the AML/CFT Act and have specific obligations to report to the FIU and collect information on their clients.

There are 84 registered vehicle dealers with the FIU.

## Products

Generally the sector deals in the sale of new and used motor vehicles and the hiring of motor vehicles.

## Clients

This sector interacts with all types of customers including high risk customers such as PEPs, foreigners, domestic residents, and businesses, etc. Vehicle Dealers are mainly situated in Port Vila and Luganville.

## Delivery channels

This include the use of technology and face to face interactions but most of their transactions are conducted via both cash and through the banking system. Supervisory findings have found that the application of CDD on buyers is not widely demonstrated.

## Geographic reach

Generally the motor vehicle sector caters to the domestic market.

## Conclusion

It is recognised that criminals in Vanuatu purchase motor vehicles with their proceeds of crime and for this reason, this sector is a reporting entity under the AML/CFT Act. As the sector is reasonably primitive and generally not sophisticated in collecting client data. There are concerns that CDD is not being adequately obtained and retained and that suspicious behaviour is not being reported. The sector does not apply AML obligations comprehensively and restraints in capacity mean that there is reduced supervision of the sector. Further, there is a high use of cash in the purchase of such vehicles rendering it difficult for motor vehicle dealers to be satisfied of the source of funds and other key AML requirements.

Motor vehicle dealers are considered to present modest (lesser) risk of money laundering than other high-risk sectors.

## Casinos

Following the February 2018 sectoral risk classification workshop Casinos were placed as high risk and still are.

There are four licensed and operational casinos who have completed registration with FIU, however there is only one active operational Casino. There are currently two casino license applications that as of October 2024 are subject to review.

Casinos must be licensed under the Casino (Control) Act which is administered by the Department of Customs and Inland Revenue (DCIR). The current licensed casino operates in Port Vila, the beneficial owner is located offshore with local management running the domestic operation.

The sector deals in a limited range of products such as gaming machines and casino tables. The gaming machines are operated with coins of a minimum of 20vt (\$0.15 USD) to a maximum of 100vt (\$0.80 USD) inserted into machines. Casino Tables have buy in's of 1000vt (\$8.30 USD) and above and game of chances are played and buy out's made when there is a winner.

Most play is undertaken in cash, with players purchasing chips with cash and winnings paid out in cash.

The sector interacts with all types of customers including high risk customers such as PEPs, foreigners, domestic residents, etc. Delivery channels include the use of social media for advertisements but most of their transactions are conducted through face-to-face interactions and participation. As there are many foreigners who play at the casino in Vanuatu, it is possible that some of the clients could originate from countries of money laundering concern. There are concerns around the level of CDD that is being undertaken by the casino including their ability to verify the information.

Cruise ships visiting Vanuatu are not permitted to operate on board casinos whilst with the territory of Vanuatu.

**Overall, casinos have been rated as having a medium risk of money laundering. Whilst the is only one active casino operating, there is not a strong sense that casinos apply AML/CFT measures in a robust manner.**

There are 5 files for jewellery dealers in Vanuatu who conduct the business of dealing in bullions, precious metals or precious stones have AML/CFT reporting requirements. The value of the market is considered for precious metals and stones is low, most items are valued less than 500,000 VT (approx. USD \$4,000). There has been no FIU reporting from the sector. Whilst there may be some ML risk from a sector dealing in precious metals and stones, in the context of Vanuatu, this sector is very small with small value goods being traded. At present therefore the vulnerabilities this sector may have to ML/TF is considered low.

# Legal Persons and Arrangements

Legal persons and arrangements pose a legitimate value in Vanuatu, enabling both local and domestic businesses to operate within the country and to provide investment.

This risk assessment finds that certain legal persons able to be established in Vanuatu pose a higher risk than others. International companies, foundations and trusts generally pose a higher money laundering risk in Vanuatu. Other legal persons that pose lesser ML risks include private companies, overseas companies, protected cell and incorporated cell companies. Public companies, community companies, limited partnerships, trade unions and credit unions pose least risk although authorities continue to closely monitor them. Shell companies are not permissible in Vanuatu.

The types of legal persons and arrangements that can be established in Vanuatu and their respective numbers are:

Type of legal person and description	Number registered
<b>Private Companies</b> These are generally limited liability companies	2225
<b>Public Companies</b> There are no public companies registered in Vanuatu at present however there is a provision in the law for the establishment of public companies.	21
<b>Community Companies</b> - mostly locally owned and designed for only domestic use	4
<b>Overseas Companies</b> – generally financial institutions operating within and outside of Vanuatu	28
<b>International Companies</b>	693
<b>Charitable Associations</b> Such as non-profit organisations	406

<b>Protected Cell Company</b>  PCCs are only allowed for insurance companies, mutual funds and unit trusts. Only once a license has been granted for these sectors then it can be incorporated into a protected cell company.	1
<b>Incorporated Cell Company</b>  ICC allow a particular cell within a PCC to incorporate into a legal person of its own.	0
<b>Limited Partnership</b>  Generally, a contract between two people or two firms to conduct a particular business. General partner will bear most of the liability/risk and limited partners can be bought on who have more limited liability. There are currently 2 registered limited partnerships, one of which has been removed.	0
<b>Foundations</b>	12
<b>Credit Union</b>  traditionally used for local activities only and are small in nature and mostly run for co-operative social projects.	3
<b>Trade Unions</b>  Provides an avenue for trade disputes, arbitration and conciliation.	2
<b>Trust</b>  Considered high risk as don't know how many trusts exist, although a requirement to collect information by CTSPs there are many other trusts established without using a CTSP – a trust can be established by trust deed, so it's unknown as to how many are there. A trust deed must be stamped by official stamp to make it official, but trusts can be enforceable without being stamped.	unknown

## Local Companies

Local companies established in Vanuatu are generally considered to have medium to low risk of ML/TF. The categories that are more medium are the ones that have owners overseas or international companies as shareholders.

## Private company

There are 2225 private companies in Vanuatu. They are predominantly made up of businesses such as accommodation, administration, agriculture forestry and fishing, consultancy, real estate activities, wholesale trading etc although there is a variety of other types of businesses who incorporate using a private company in Vanuatu.

Most of these entities are established for the purpose of running local businesses and it is estimated that approximately 96% have single-layer ownership structures, with the remaining 4% estimated as having more multi-layer ownership. Across these private companies, there are in total 5964 Director positions of which 2788 are foreign directors. 14% of these companies are estimated to have foreign shareholders. Nominee shareholders are allowed for these companies and 212 private companies have nominee shareholders. Bearer shares and share warrants are not permitted.

Commencing October 2024 VFSC has commenced a process requiring all private companies to provide a declaration which contains information on ultimate beneficial ownership, to improve ownership transparency.

## **Public Companies**

The relevant provisions allowing for public companies to be registered in Vanuatu are set out in the Companies Act No.25 of 2012 Subsections. 9 (2) (3) and (4). A public company is a company that offers securities to the public and has unrestricted membership. In the context of Vanuatu, most companies are private companies. Very few public companies are currently registered but are not offering securities to the public or issuing any public prospectus. There is no identified current AML/CTF risk with public local companies.

## **Community Companies**

The Companies Act No. 25 of 2012 provides for the registration of Community companies, being a company that is set up with the principal objectives of promoting the community's interest. The AML/CFT risk of community companies is generally considered low. The two Community companies currently registered are established to promote women's handicrafts in the island of Malekula.

## **Overseas companies**

These companies are generally incorporated outside Vanuatu and have an established place of business within Vanuatu. Pursuant to the Companies Act an overseas company must apply to the Minister for a permit before establishing a place of business in Vanuatu. Ownership, shareholding and identity information on an overseas company must be available to its authorized agent in Vanuatu.

There are 28 overseas companies currently registered in Vanuatu. The activities of overseas companies' centre around accommodation, construction, real estate, insurance, professional technical activities, consultancy and others.

## **International companies (for offshore business only and prohibited from carrying on business or owning land in Vanuatu).**

International Company's (ICs) are registered under the International Companies Act (32 of 1992). ICs cannot do business in Vanuatu except to further their business elsewhere offshore although they may hold shares in local companies. Not all international companies are foreign owned, residents in Vanuatu can also own international companies for the purpose of holding shares in their local company. Shares must be registered and can be with or without par value, can have full, partial, conditional or non- voting rights, and can be convertible, common, preferential or redeemable; the company can have a single shareholder (nominee is permissible) and at least one natural person director who must be resident in Vanuatu. Beneficial ownership information must be provided to the VFSC who intend to develop an on-line beneficial ownership registry.

### **Annual turnover of International Companies**

<b>Year</b>	<b>Number of registered international companies</b>
2024 - 28 October	693
2023	569
2022	507
2021	468



The following activities are declared in current international companies in Vanuatu

<b>Type of activity</b>	<b>Number of ICs</b>
Accommodation	1
Administrative and support service activities	6
Agriculture, forestry, and fishing	11
Arts, entertainment, and recreation	3
Construction, general and specific trades	2
Consultancy	27
Education	3
Financial activities	106
Holdings	426
Information and communication	4
International Banks	1
Insurance activities	3
Manufacturing and trade	3
Mining and quarrying	1
Professional, technical activities	2
Real estate activities	3
Shipping	33
Security services	1
Transportation	1
Wholesale and retail trade	1

Overall, international companies are deemed to have higher risk of ML/T Fin Vanuatu. This is because many have foreign ownership, the nature of the business and the authority's ability to properly verify that business. Shareholders and ultimate beneficial owners of these companies have emanated from jurisdictions of known money laundering weakness.

## **Protected Cell Companies (PCCs) and Incorporated Cell Companies (ICC)**

PCCs are to be formed pursuant to the Protected Cell Company Act; a PCC is a single legal entity with separate and distinct cells within it, usually created to segregate company assets, ensuring that assets and liabilities of one cell are segregated from those of the other cell; however, each cell is not a separate legal entity.

ICCs are formed pursuant to the Incorporated Cell Company Act; an ICC is an entity where each cell is a separate and distinct corporate entity from the ICC itself. A PCC and ICC can only be a captive insurance company, a mutual fund or a unit trust. Both PCCs and ICCs are also subject to the Companies Act.

There has never been any ICCs or PCCs registered with the VFSC. Nevertheless, were there to be any registrations, there could be a minor level of AML/CFT risk however that risk would be akin to that of local companies given the domestic application of the law.

## **Limited Partnership**

General partnerships are not required to register with the VFSC however offshore limited partnerships and limited partnerships are required to register with the VFSC. An offshore limited partnership must not carry on in Vanuatu any business that an international company is prohibited under the International Companies Act from carrying on. No limited partnerships have been registered thus far with the VFSC, and if there were to be in the future the risk would be akin to that of a local company, given that this would apply to domestic organisation.

## **Foundations: established by the Foundations Act No 38 of 2009.**

A foundation may be private or public and created for any purpose legal under Vanuatu law. The founders may be an individual or a corporate body. The founder must go through a CTSP to establish the foundation.

There are currently 13 Foundations registered in Vanuatu. Most of the Foundations are established for sectors or activities that are responsible for awareness and support to improve educational, health and social wellbeing of people in Vanuatu, conservation and protection of the environment, healthcare, humanitarian and combating climate change. Some examples of foundations currently active in Vanuatu include one aimed at protecting and enriching an art collection and another established for Animal welfare and protection. 11 of the 13 foundations have single layers of ownership, with one being owned by a foreign legal person. 6 out of the 12 active foundations have founders or guardians or members that are foreigners who reside in Vanuatu.

The VFSC is responsible for registration of a foundation and requires information including the beneficial owner, key persons who are founders, councilors, secretary and guardian of the foundation.

To evidence this, certified passports or IDs, police clearance, proof of residence and source of funds must be submitted to be checked and verified. Passport and ID are verified by the World Check and Passport Check. Details of initial assets of the Foundation must be set out plus a written Charter, and the Foundation must have a registered office. The ML/TF risk is therefore considered medium, due to the nature of this sector as outlined above.

## **Credit Unions**

Credit Unions Act [Cap 256] provides for the registration of credit union by VFSC and supervision by the Reserve Bank of Vanuatu (RBV). The RBV and the VFSC has a Memorandum of Understanding in place where they work jointly to deal with AML/CTF risks. There are only 3 Credit Unions registered with the VFSC. The membership of such credit unions are mostly locals who have their salary deductions as their contribution to the credit union. The Act does not restrict membership to locals therefore membership is open to foreign nationals however the likelihood of foreign nationals abusing local credit unions for ML/TF is not considered high. The risks in this sector are generally considered low.

## **Trade Unions**

An incorporated Trade Union company provides services under section 10 of the Trade Union Act. This act provides a framework to form, register and regulate these types of companies, and provides an avenue for settlement of trade disputes. There are two trade union companies in Vanuatu supervised by the VFSC, these types of companies are consider low risk.

## **Trusts**

Trusts can be established in Vanuatu under common law principles. A trust may be registered at the VFSC and given an official “stamp” however this is not necessary for a trust to be enforceable.

Trusts can be set up for locals or foreigners. However, as there is no governing legislation for trusts, and they are not regulated or captured in any registry in any way authorities are not aware of the number of local trusts established for foreigners. Authorities are aware however that trusts are being established for foreigners through their work with the CTSPs however the actual number is unknown. The trusts that are established would be mostly for Australians or New Zealand nationals who are looking to own property in Vanuatu or to open bank accounts here. The trust serves the purpose of managing the asset.

Based on the lack of information available to authorities about the trusts operating in Vanuatu and given that it does operate an international financial centre, trusts are deemed higher risk of ML/TF. Whilst there have been no cases domestically or to authorities' knowledge internationally involving trusts established in Vanuatu, the unknown nature of trusts that are operating poses a risk. The Trust Bill that was drafted in 2018 which aims to capture more information about trusts established in Vanuatu has not been adopted by the Parliament yet.

Many websites of CTSPs offer trust management services in Vanuatu. Under the CTSP license, companies can provide company trust services once licensed. However, the current legal framework does not regulate the trust business, it only allows for a CTSP to provide such services. The draft Trust Bill will account for this, if passed by Parliament.

# Terrorism Financing Risk Assessment

Terrorism is a global concern and preventing terrorism is a global responsibility. The identification and response to terrorism financing is a responsibility of Vanuatu Police Force and the Vanuatu FIU. There have however been no investigations of terrorism or terror financing undertaken in Vanuatu. There are no identified individuals or groups who present any form of threat related to domestic terrorism. The potential of a domestic terrorism related event occurring in Vanuatu is considered low. This is consistent with the findings of the 2017 NRA.

Despite the national domestic threat considered to be extremely low, terror financing threat must consider the misuse of the Vanuatu's financial system to 'raise' or 'move' funds to finance foreign terrorism.

## RAISE

funding by third parties, receiving or soliciting donations, committing crime e.g. fraud. Can also include the employment of legitimately acquiring funds.

## MOVE

move facilitates the transfer between locations. Send cash, remit funds via MVTs or the banks, misuse charities and NPOs, cash smuggling or the smuggling of high value items such as precious metals and stones.

## USE

purchase equipment or other goods and services to commit a terror act, funding travel to a conflict or other high-risk jurisdiction for training or to commit terror activities.

## Raise

There are currently some internal tensions and terrorism activity within the wider region, however it is highly unlikely that funds have been 'raised' within Vanuatu in the form of soliciting donations or in the undertaking of any crime to fund these activities.

Beyond the region the occurrence of terrorism is understood to be high and widespread. From a review of FIU reporting, other intelligence available to authorities, and from a review of requests for international co-operation there are no known instances where Vanuatu has been implicated in any way in any form of terror financing activity. This includes any false positives associated with any sanctions list.

Geographic isolation however does not in itself afford protection. Terrorist organisations use the internet to ensure global connectivity. Citizens of Vanuatu will have the opportunity to access information and propaganda made available by terrorist organisations from which to form radical or extremists' views, although all available information supports an assessment of low risk, authorities and reporting entities must maintain vigilance.

Terrorist organisations are recognised to actively participate in crime (and transnational crime) to raise finance to fund terrorism operations. The occurrence or the identification of transnational money laundering, which might involve the CIP or other parts of the AML/CFT system in Vanuatu could relate to schemes associated with terror financing. Development of responses to counter misuse of any part of the wider AML system would therefore also have relevance to countering the financing of terrorism.

## Move

Within the wider global environment cash funds are used by terrorists to support the funding of terror operations. This has occurred as a result of gradual improved CFT awareness. This awareness has impacted to some extent on the ability for terrorists, their organisation and their financiers to reliably use financial systems to 'move funds'. Cash although offering anonymity requires physical movement into areas in which the terrorist organisation undertake (or plan to undertake) operations. It is considered highly unlikely that Vanuatu would be involved in any form of physical transportation, including being a transit country through which funds are 'moved' into one or more of the regions which suffer high occurrence of terrorism related activities.

However; similar to the risk with transnational money laundering, moving money through the global financial system often relies on seeking out jurisdictions who are recognised as having AML/CFT weaknesses and incorporating those jurisdictions into wider transnational terrorism financing schemes. Although the risk associated with terror financing in Vanuatu is considered low, recognised vulnerabilities as described in this NRA could enable 'movement' of funds raised within other parts of the world for the purpose of terrorism. Various parts of Vanuatu's AML/CFT system, such as the CIPs, the legal persons and legal arrangements available from Vanuatu and the potential misuse of the likes of registered VASPs or online gaming licences are all vulnerabilities. There is concern regarding the CIPs and for this reason the European Commission recognises Vanuatu is a 'high risk country' which has influenced the 'reputation' of Vanuatu. Terrorist financiers may make decisions based on a countries 'reputation' for the purpose of layering and obfuscating the source funds ultimately used to finance terror operations. Current reputation (despite its validity or otherwise) potentially makes Vanuatu more vulnerable and more attractive than other countries with recognised stronger AML/CFT controls.

As previously referred there have been no international requests from any foreign jurisdiction seeking information from Vanuatu authorities related to possible TF.

Any sector recognised as vulnerable for money laundering will likely also have 'vulnerabilities' with terrorism financing. Particularly sectors which offer cross border funds transfer services or sectors which provide any product or services that could be misused to conceal beneficial ownership of property that may be physically located in another jurisdiction.



Similar to cash cryptocurrency has a reputation of offering anonymity. There are currently no licenced Virtual Asset Service Providers operating under a Vanuatu issued license, however an unlicensed VASP operates which presents some risk.

## Control Measures

UN Security Resolutions are published via a link on the Vanuatu FIU website. The United Nations Financial Sanctions provides a mechanism for domestic designation. Vanuatu has not designated any domestic entities in support of UN Security Resolution 1373 [12] and has not frozen or seized assets in response to the resolution.

**UN Security Resolution 1373 was adopted on 28 September 2001 following the 11 September terror attacks in the United States. The resolution required countries to implement laws that enabled the freezing of assets of designated entities.**

## High Risk Jurisdictions

The 2024 Global Terrorism Index [13] identifies the 10 countries most impacted by terrorism. Transactions that are directed to or from these countries, therefore have an elevated level of risk. In support of Vanuatu's risk understanding there should be some understanding and maintained understanding of the current global terrorism landscape.

**Regionally the impact of terrorism is far higher in Sub Sahara Africa, the Middle East and North Africa, and South Asia. These three regions accounted for 94 % of all deaths from terrorism in 2023. Globally in 2023 there were 8352 deaths from terrorism.**

Top 10 Countries: [14]

Rank	Country
1	Burina Faso
2	Israel
3	Mali
4	Pakistan
5	Syria
6	Afghanistan
7	Somalia
8	Nigeria
9	Myanmar
10	Niger

[13] <https://www.economicsandpeace.org/global-terrorism-index/>

[14] <https://www.economicsandpeace.org/global-terrorism-index/>

The connectivity between Vanuatu's financial system and any country which experiences high or elevated terrorism risk would require closer scrutiny, as would any citizenship application where the applicant has been a prior citizen of a country with recognised higher terrorism related risk.

## Recognised indicators

In the absence of any prior typology reporting on terrorism financing in Vanuatu this NRA provides some indicators to improve understanding of risk. Many of these indicators are the same or similar to money laundering indicators.

Recognised indicators:

### Customer behaviour

- Multiple customers using the same address or phone number.
- Use of false identification or fraudulent documents.
- Requesting multiple cards linked to common funds or purchasing multiple stored value cards.
- Customers emptying out bank accounts and savings, and suddenly selling assets including personal belongings without obvious purpose.
- Funds received from and sent to unrelated businesses that do not align with the client's business profile, including an absence of regular salary payments and business-related activity.
- Customers utilising financial services at retailers to buy equipment that could be used for terrorist activity.

### Transaction monitoring

- A sudden increase in business/account activity, inconsistent with customer profile.
- Numerous and frequent transfers into personal account described as donations, humanitarian aid, or similar.
- Absence of expected transactions such as regular income or u, normal debit, and credit account activity and/or paying bills.

### High-risk jurisdictions

- Transfers to and from high-risk jurisdictions.
- Multiple customers conducting funds transfers to the same beneficiary in a high-risk jurisdiction.
- Vague justifications and a lack of documentation for requests to transfers funds to high-risk jurisdictions or entities.
- Transactions to locations on the borders of high-risk jurisdictions.

The financing of terrorism in the domestic context is low threat. Elevated threat relates to the international terrorism environment. The described vulnerabilities within the financial sector as they relate to money laundering equally apply to terrorism financing. The 'reputation' of Vanuatu as a country with weak controls potentially makes part of the Vanuatu AML/CFT system attractive to terrorist and terror organisation, especially those connected to the international environment. It is reputation which elevates risk of terror financing and sectors most vulnerable are those that are also vulnerable to money laundering.

Repairing reputation and being recognised as a country with a strong and robust financial system, intolerant to money laundering with highly capable authorities who can investigate, prosecute and confiscate proceeds of crime will improve the resilience of Vanuatu to potential misuse in any way associated with terror financing.

## Consequences

The consequences were Vanuatu to be abused for terror financing would be severe. If the vulnerabilities which exist in Vanuatu were exploited by a terrorist or a terror organisation to move and use funds to finance a terror related crime this would deeply impact on Vanuatu's reputation for a likely lengthy period. Because of the vulnerabilities and the severity of consequences were this to occur, Vanuatu rates its terror financing risk as High.

# Non-Profit Organisation (NPO) Sector

The FATF definition of an NPO is a legal person or arrangement or organisation that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural or educational, social or fraternal purposes, or the carrying out of other types of good works[15]. These organisations do not exist for the purpose of profit.

Consistent with the TF risk assessment no NPO operating in Vanuatu has been involved to terrorism financing

**Globally there remains a threat of misuse of the NPO sector by terrorist organizations. While, in context of the size of global NPO sector, the probability of this occurring is recognised to be low, the impact (or consequences) of abuse of the NPO sector by a terrorist organisation will have a significant impact on donor trust and confidence in the sector. In the absence of donor funds, the operation and vital 'good works' of NPOs cannot be delivered. For this reason, it is critical that terrorist organisations are prevented from misusing this sector to raise and move funds.**

**- The Risk of Terrorist Abuse in NPOs - FATF 2014.**

[15] FATF recommendation 8 does not apply to the NPO sector. FATF has adopted a functions definition of an NPO. This definition is based on those activities and characteristics of an organisation that put it at risk of terrorist abuse rather than based on the simple fact that it is operating on a non-profit basis.

It is recognised that the domestic NPO sector is involved in the receipt and distribution of funds to support social and economic development in Vanuatu. In the absence of any domestic threat these activities have a non-existent risk associated with terror financing.

**There are 379 registered charities in Vanuatu these mostly relate to churches and political parties. There also exist 12 foundations in Vanuatu. The foundations undertake domestic activities to support social and environmental wellbeing. Of the registered charities none undertake overseas operations.**

The VFSC administer the Charitable Association Act. To form a charity an application is made to VFSC who assess the application. Persons who administer the charity are subject to vetting and due diligence to ensure they meet fit and proper requirements to undertake non-profit activities. Subject to approval a certificate of incorporation is issued to the charity who then become subject to annual reporting requirements. These requirements capture information associated with source of funds, use of funds and the activities of the charity and where these activities occurred along with general financial reporting.

Although annual reporting is a requirement, these are often filed late. Non-compliance with the filing of an annual return results in de-registration and removal from the registry. Annual removal occurs to on average 26% of registered charities. For example in 2023 of the 36 registered charities , 28 returns were filed and deregistered.

## **What could make an NPO attractive for a terrorist organisation?**

- NPOs can raise and move funds to geographic locations where both the NPO and terrorist organisations are operating. This means there is a higher vulnerability when the NPO is providing service activities or remitting funds to geographic areas with active terrorist threat.
- NPOs have a global presence and are often established in high-risk areas and conflict zones.
- NPOs have access to often large volumes of donations, which are derived from a wide range of sources, often in cash, and often from a wide range of jurisdictions.
- NPOs' funds could be susceptible to theft, and therefore good governance and auditing controls to safeguard against theft ensure that NPO funds are not able to be misappropriated to the benefit of terrorists or terror organisations.

## **NPOs with overseas connectivity**

Data captured via NPO annual returns is limited. However there are no charities which operate internationally. There existed a faith-based charity that could have supported travel to a jurisdiction with high terror risk for religious education. This charity went into receivership and no longer operates.

## **Summary**

Charities and NPOs with international connectivity and operations present higher TF risk than those with pure domestic focus and domestic activities. There are no charities in Vanuatu who conduct international activities, all registered charities having a domestic focus. There is no known occurrence where a Vanuatu NPO has been involved in terror financing and the FIU has not received any reporting related to the NPO sector. Risk associated with NPOs from a terror financing perspective is considered low.



# Proliferation Financing Risk Assessment

This PFRA will serve as a cornerstone of Vanuatu's understanding of its risk to sanctions evasion for proliferation financing. It will serve as a key reference document to government and the private sector in understanding how Vanuatu may be exposed to proliferation financing in order for authorities and the private sector to implement measures to both deter and detect evasions of sanctions related to PF.

The objectives of PFRA are to:

- provide an understanding and assessment of Vanuatu's risk of exposure to PF.
- identify and address key vulnerabilities in the financial and designated non-financial businesses and professions (DNFBPs) sectors that may be exploited by proliferators to finance activities relating to proliferation of weapons of mass destruction (WMD) or to evade United Nations Security Council sanctions; and
- support development of appropriate strategies and recommend measures in mitigating the risks and vulnerabilities identified to strengthen Vanuatu's overall counter PF frameworks. Enable private sector entities to have in place processes to identify, assess, monitor, manage and mitigate proliferation financing risks based on the findings

As per the FATF guidance on PF, the source of proliferation financing risks would depend upon several factors as follows: [16]

**Risk of a potential breach or non-implementation of targeted financial sanctions:** This risk may materialise when designated entities and individuals access financial services, and/or funds or other assets, as a result, for example, of delay in communication of designations at the national level, lack of clear obligations on private sector entities, failure on the part of private sector entities to adopt adequate policies and procedures to address their proliferation financing risks (e.g. weak customer onboarding procedures and ongoing monitoring processes, lack of staff training, ineffective risk management procedures, lack of a proper sanctions screening system or irregular or inflexible screening procedures, and a general lack of compliance culture);

**Risk of evasion of targeted financial sanctions:** This risk may materialise due to concerted efforts of designated persons and entities to circumvent targeted financial sanctions (e.g. by using shell or front companies, joint ventures, dummy accounts, middlemen and other fraudulent/sham intermediaries)

## Methodology

Vanuatu's authorities gathered and validated information in relation to potential exposure to PF including but not limited to the following:

- Examined trade relationships with DPRK/Iran
- Examined diplomatic relationships with DPRK/Iran
- Examined Vanuatu's CIP programme to consider ways in which it may be exploited for PF
- Consulted with Vanuatu's shipping and maritime registry
- Examined Vanuatu's offshore sector to understand ways in which it may be vulnerable to PF
- Considered new technologies and exposure of crypto currencies
- Legal framework

## Context

Vanuatu does not have diplomatic relationships with North Korea or Iran, nor does it have direct connections or trade relationships with Iran or DPRK and there is no information to suggest that any members of the population are nationals of Iran or DPRK. Immigration confirms the movement of nationals from these countries does not occur. Financial institutions and DNFBPs do regularly screen against sanctions lists which is overseen by the financial sector and DNFBP supervisors. Import/export relationships in Vanuatu are predominantly with Australia, New Zealand, Europe and New Caledonia and there are no imports/exports from either Iran or DPRK.

Nevertheless, there are several vulnerabilities that expose Vanuatu to potential sanctions evasion for proliferation financing. They include

- Use of maritime services (Vanuatu flag)
- Use of citizenship investment programme and name change
- Use of offshore companies and domestic and international banks
- cryptocurrencies

## Maritime services

The Vanuatu Shipping Registry is government owned with central processing based in New York with one individual being based in Vanuatu. There are currently 475 vessels carrying the Vanuatu flag. The Registry primarily focuses on the oil industry with small oil vessels and related equipment comprising approximately 45% of the registry with approximately 30% being fishing vessels. To obtain a Vanuatu flag, identification documents are required, and potential owners are scanned through the World check database. Challenges may arise when complex company structures are the owner of the potential ship however these circumstances would raise suspicion. Vanuatu has an open shipping registry meaning that ships carrying a Vanuatu flag can be of any nationality – there is no requirement for example that the crew be Ni-Vanuatu as is the case with other countries. The cost to register a ship is approximately USD5,000 per year through to 20,000 per year depending on the tonnage.



A UN Panel of Experts on DPRK Monitoring Report dated March 2020 [17] noted that one Vanuatu flagged ship was banned from entry into the Republic of Korea for confirmed involvement in activities prohibited by UN Resolutions. There has been no citation of Vanuatu in following UN Panel reports, and the Maritime Registry has put in place stricter requirements since this date.

Therefore, whilst there are checks and balances in place, given that Vanuatu operates an open shipping registry in high-risk areas for sanctions evasion, there is potential vulnerability for proliferation financing although registry owners have confirmed that measures are in place to ensure it is not abused for proliferation financing.

## **Use of citizenship investment program**

As described elsewhere in this report, the citizenship investment program is a significant vulnerability for proliferation financing. Open-source reporting has indicated that criminals from several countries have obtained Vanuatu passports. Whilst there is a requirement that nationals of North Korea, Yemen, Syria, Afghanistan, Iraq and Iran not be able to obtain a Vanuatu passport, there is a caveat for nationals of these countries who can demonstrate that they have lived outside these countries for the last five years. [Nationals from these countries have sought to and have obtained passports] In some instances, adverse findings were found prior to acceptance into the program. Open-source material indicates that North Korea and Iran do utilise citizenship by investment programs to obtain identities that enables them to move money around the world more freely.

One media article has reported that a suspected North Korean politician did in fact obtain citizenship of Vanuatu, although the article notes that this has not been proven [18].

Therefore, despite some checks and balances being in place in the Vanuatu CIP, given open-source reporting on the fact that some criminals have obtained passports, it is a key vulnerability for proliferation financing. The consequences were this to occur has been assessed as very high, leading to a consideration that this is a high vulnerability for Vanuatu.

## **Use of cryptocurrencies**

As a key method utilised by North Korea and Iran to raise and move funds globally, Vanuatu has considered its exposure to being abused by these countries to proliferation financing through cryptocurrency providers in Vanuatu. Whilst draft legislation is currently in place to regulate cryptocurrency, this is yet to be passed. Further, Vanuatu does have a current licensing system for cryptocurrency traders however there are no current active licenses in this category although it is noted that one business is conducting Virtual Asset activity without a license. Without a regulated system in place, VASP activity is simply unknown.

[17] [https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S\\_2020\\_151.pdf%20at%20page%2039](https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S_2020_151.pdf%20at%20page%2039)

[18] <https://www.theguardian.com/world/2021/jul/15/citizenship-for-sale-fugitives-politicians-and-disgraced-businesspeople-buying-vanuatu-passports>

## Use of Vanuatu domestic and international banks

Both domestic and international banks accept international clients and challenges with verification of CDD have been noted in this report. Given the findings above in relation to the CIP, if a national of North Korea or Iran were to obtain a Vanuatu passport, this would also expose Vanuatu banks to being exploited by these citizens for proliferation financing. At this point in time there are no requirements of financial institutions or DNFBPs to ascertain previous passports behind those obtained through the CIP when conducting CDD. This poses a risk of potential breach of targeted financial sanctions despite the controls that are in place, the robust legal framework and the supervision of financial institutions.

As noted in the report above, the FIU did discover that a client had been on-boarded to a Vanuatu domestic bank who was considered a close associate of an individual subject to United States sanctions. Whilst he was not a UN sanctioned individual, the same requirements were in place in respect of the US Sanctions regime and the client was nevertheless onboarded. This is an example of potential sanctioned individuals accessing Vanuatu's financial institutions.

The reduced capacity of supervisors to closely check and monitor the client databases, movement of funds and the relevant CDD processes employed in both domestic and international banks coupled with the CIP expose these sectors to potential proliferation financing.

## Consequences

The consequences were Vanuatu to be abused for proliferation financing would be severe. Vanuatu sits within the Asia-Pacific region and as such would be exposed to regional instability and security threats. Further, if any of the vulnerabilities outlined above were exploited for proliferation financing this would pose significant concerns in relation to Vanuatu's ability to implement a robust AML/CFT system, its reputation in the international community and related correspondent banking relationships. The use of, or threat to use a weapon of mass destruction that was unknowingly facilitated through Vanuatu would be severe.

Because of the vulnerabilities outlined above and the severe consequences were this to occur, Vanuatu rates its proliferation financing risk as High.

[17] [https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S\\_2020\\_151.pdf%20at%20page%2039](https://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/S_2020_151.pdf%20at%20page%2039)

[18] <https://www.theguardian.com/world/2021/jul/15/citizenship-for-sale-fugitives-politicians-and-disgraced-businesspeople-buying-vanuatu-passports>