

The Solomon Islands

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Solomon Islands	
Sanctions:	None
FATF list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Corruption Index (Transparency International & W.G.I.))
<p>Major Investment Areas:</p> <p>Agriculture - products: cocoa, coconuts, palm kernels, rice, potatoes, vegetables, fruit; cattle, pigs; fish; timber</p> <p>Industries: fish (tuna), mining, timber</p> <p>Exports - commodities: timber, fish, copra, palm oil, cocoa</p> <p>Exports - partners: China 47.9%, Australia 16.6% (2012)</p> <p>Imports - commodities: food, plant and equipment, manufactured goods, fuels, chemicals</p> <p>Imports - partners: Singapore 26.6%, Australia 25.1%, China 7%, NZ 4.8%, Malaysia 4.7% (2012)</p>	
<p>Investment Restrictions: Information unavailable</p>	

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Section 1 - Background

The UK established a protectorate over the Solomon Islands in the 1890s. Some of the most bitter fighting of World War II occurred on this archipelago. Self-government was achieved in 1976 and independence two years later. Ethnic violence, government malfeasance, and endemic crime have undermined stability and civil society. In June 2003, then Prime Minister Sir Allan KEMAKEZA sought the assistance of Australia in reestablishing law and order; the following month, an Australian-led multinational force arrived to restore peace and disarm ethnic militias. The Regional Assistance Mission to the Solomon Islands (RAMSI) has generally been effective in restoring law and order and rebuilding government institutions.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

The Solomon Islands is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in The Solomon Islands was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, The Solomon Islands was deemed Compliant for 6 and Largely Compliant for 13 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2010):

The Solomon Islands criminalizes money laundering and terrorism financing in a manner closely consistent with the international standards. There has been one successful conviction for money laundering and no incidents of terrorism financing. Lack of financial investigation skills limit the ability of competent authorities to investigate money laundering and trace the proceeds. Law enforcement authorities favor the enforcement of conventional penal code offences at the expense of other more proceed-generating offences such as illegal logging, fishing and mining. The Solomon Islands does not yet have a freezing mechanism to implement UNSCR 1267 and 1373.

The Solomon Islands Financial Intelligence Unit (SIFIU) was created by virtue of a delegation instrument under the auspices of the Money Laundering and Proceeds of Crime Act 2002. Despite lack of clear enabling legislation and severe shortages of resources, the SIFIU has achieved significant strides in overcoming these difficulties and successfully analyzed several STRs, disseminated quality intelligence reports and actively supported investigations that led to successful prosecutions. Currently, only commercial banks file STRs and the overall number remains low. No reports were disseminated in 2009 due to severe skilled staffing shortage.

The Solomon Islands has imposed obligations on banks and other non-financial institutions to adopt some AML/CFT measures. These obligations still fall short of the requirements of the international standards especially on beneficial ownership and PEPs. The SIFIU has issued unenforceable guidelines that raised the awareness of the banking sector of some of the missing requirements. Outside the banking sector implementation is absent and severe capacity and resource constraints and lack of sanctioning powers significantly weaken oversight of all sectors.

Law enforcement authorities have extensive powers to confiscate proceeds and terrorist property and to provide mutual legal assistance. The informal cooperation channels both domestic and international are very well-developed and well-utilized.

US Department of State Money Laundering assessment (INCSR)

The Solomon Islands was deemed a "Monitored" Jurisdiction by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Solomon Islands is not considered a major financial center. It has a relatively stable banking system closely integrated with the financial systems of Australia and New Zealand. In general, the risk of money laundering and terrorism financing in the Solomon Islands is very low given the country's isolated geographic location and very small community, which preclude anonymity. Corruption and fraud by government employees continues to be the main source of illegal proceeds. Smuggling, environmental crimes, and the proliferation of counterfeit goods also are problems in the country. Historically, money laundering is often associated with fraud, illegal logging and fishing, and robbery. Foreign destinations for the laundered proceeds include China, Australia, Malaysia, and Singapore. The SIFIU suspects Asian logging vessels (particularly Malaysian) bring counterfeit currency into the Solomon Islands to finance forestry operations. Customs fraud and tax evasion are also common.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES civilly: NO

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES KYC covered entities: Banks, credit institutions, credit unions, insurance and securities companies, casinos, and bullion dealers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

STR covered entities: Banks, credit institutions, bullion dealers, credit unions, casinos, and insurance companies and intermediaries

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0 in 2014

Convictions: 0 in 2014

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Solomon Islands is a member of the Asia/Pacific Group on Money Laundering (APG), a FATF style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

High level corruption remains a serious problem in the Solomon Islands and one that constitutes a high priority for the government. The SIFIU lacks capacity and continues to be understaffed, and the Royal Solomon Islands Police Force does not have the expertise and personnel to investigate sophisticated financial crimes. There has been only one successful conviction for money laundering, and no incidents of terrorism financing. The government also lacks the ability to freeze terrorist assets in accordance with UNSCRs 1267 and 1373.

The Solomon Islands should continue to develop its AML/CFT programs and procedures. The government should develop and implement a comprehensive system for the declaration or disclosure of the cross-border transportation of cash. Currently, a declarations system is in place only for passengers traveling by air. This system should be extended to passengers traveling by sea, and applied to postal cargo as well. The Solomon Islands should become a party to the UN Convention against Transnational Organized Crime and the 1988 UN Drug Convention.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, The Solomon Islands does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

States Party to UN 1988 Convention - States parties to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

States Party to United Nations Transnational Organised Crime Convention - States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

The Solomon Islands is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

He Solomon Islands is not considered to be an Offshore Financial Centre

US State Dept Trafficking in Persons Report 2014 (introduction):

The Solomon Islands is classified a Tier 2 (watch list) country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

The Solomon Islands is a source, transit, and destination country for local and Southeast Asian men and women subjected to forced labor and forced prostitution. Women from China, Indonesia, Malaysia, and the Philippines are recruited from their home countries for legitimate work, some paying large sums of money in recruitment fees, and upon arrival are forced into prostitution. Men from Indonesia and Malaysia are recruited to work in Solomon Islands' logging and mining industries and may be subsequently subjected to forced labor in industrial camps. Fishing crew members from Indonesia, the Philippines, Vietnam, Sri Lanka, North Korea, and Fiji have reported indicators of human trafficking, including severe living conditions, violence, limited food supply, and nonpayment of wages on Taiwanese-flagged fishing vessels in Solomon Islands' territorial waters and ports.

Local children are also subjected to prostitution and forced labor within the country. Children are subjected to prostitution, sometimes in exchange for money or fish, particularly near foreign logging camps, on foreign and local commercial fishing vessels, and at hotels and entertainment establishments. Some parents sell their children to foreign workers at logging and mining companies for marriage; some of these girls are later forced into domestic servitude and prostitution in the logging and fishing areas. Local boys and girls are put up for "informal adoption" by their family members in order to pay off debts; some are subsequently subjected to sexual servitude by the adopted family members or guardians, or forced labor as domestic servants. Boys are forced to work as domestic servants and cooks in logging camps.

The Government of the Solomon Islands does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Immigration officials reported investigating an unspecified number of alleged labor trafficking cases in the fishing industry, in which potential victims of trafficking were interviewed and repatriated. Despite these efforts, the government did not demonstrate overall increasing anti-trafficking efforts; therefore, Solomon Islands is placed on Tier 2 Watch List for the second consecutive year. During the reporting period, the government passed implementing regulations for the 2012 Immigration Bill, which prohibits all forms of trafficking, but they were not gazetted. The government did not press charges against suspected traffickers or actively assist trafficking victims. The government also did not allocate funding for national anti-trafficking efforts.

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	42
World Governance Indicator – Control of Corruption	46

Section 3 - Economy

The bulk of the population depends on agriculture, fishing, and forestry for at least part of its livelihood. Most manufactured goods and petroleum products must be imported. The islands are rich in undeveloped mineral resources such as lead, zinc, nickel, and gold. Prior to the arrival of The Regional Assistance Mission to the Solomon Islands (RAMSI), severe ethnic violence, the closing of key businesses, and an empty government treasury culminated in economic collapse. RAMSI's efforts to restore law and order and economic stability have led to modest growth as the economy rebuilds.

Agriculture - products:

cocoa, coconuts, palm kernels, rice, potatoes, vegetables, fruit; cattle, pigs; fish; timber

Industries:

fish (tuna), mining, timber

Exports - commodities:

timber, fish, copra, palm oil, cocoa

Exports - partners:

China 47.9%, Australia 16.6% (2012)

Imports - commodities:

food, plant and equipment, manufactured goods, fuels, chemicals

Imports - partners:

Singapore 26.6%, Australia 25.1%, China 7%, NZ 4.8%, Malaysia 4.7% (2012)

Banking

The commercial banks are licensed under the provisions of the FIA. The FMSD is responsible for licensing and performing prudential supervision while it only assists the FIU who performs the AML/CFT supervision. The banking business sector in Solomon Islands is dominated by branches of foreign owned banks. Two are branches of Australian banks, ANZ and WBC, and one is a branch of a bank in Papua New Guinea, Bank South Pacific. Of the three commercial banks, two have branches and agencies in the provinces and Honiara. There is a total of 14 branches and 10 agencies.

Bank South Pacific was issued a license as a foreign branch operation on 12th January 2007 after it acquired the 100% interest in National Bank of Solomon Islands Limited. It only

became fully operational on 1st August 2007 when the local bank ceased to operate as a bank in Solomon Islands. The commercial banks consolidated balance sheet amounted to US\$240 million as at quarter end March 2009.

Stock Exchange

There is no security market in the country, however only the Central Bank of the Solomon Islands (CBSI) is issuing some government bonds and treasury bills in the country. A dedicated unit within the CBSI looks after this service.

Section 4 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

mixed legal system of English common law and customary law

International organization participation:

ACP, ADB, AOSIS, C, EITI (candidate country), ESCAP, FAO, G-77, IBRD, ICAO, ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, IOC, ITU, MIGA, OPCW, PIF, Sparteca, SPC, UN, UNCTAD, UNESCO, UPU, WFTU, WHO, WMO, WTO

Section 5 - Tax

Exchange control

For further information - <http://www.commerce.gov.sb/>

Treaty and non-treaty withholding tax rates

For further information - <http://www.commerce.gov.sb/>

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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