

Vanuatu

RISK & COMPLIANCE REPORT

DATE: February 2017

Executive Summary - Vanuatu	
Sanctions:	None
FAFT list of AML Deficient Countries	Yes
Higher Risk Areas:	Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions Offshore Finance Centre Compliance of OECD Global Forum's information exchange standard
Medium Risk Areas:	US Dept of State Money Laundering assessment Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products: copra, coconuts, cocoa, coffee, taro, yams, fruits, vegetables; beef; fish</p> <p>Industries: food and fish freezing, wood processing, meat canning</p> <p>Exports - commodities: copra, beef, cocoa, timber, kava, coffee</p> <p>Exports - partners: Thailand 59.9%, Japan 20.9% (2012)</p> <p>Imports - commodities: machinery and equipment, foodstuffs, fuels</p> <p>Imports - partners: China 19.9%, Singapore 18.6%, US 14.8%, Japan 11.4%, Australia 10.3%, Fiji 5.7%, NZ 4.7% (2012)</p>	

Investment Restrictions:

Information unavailable

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Section 1 - Background

Multiple waves of colonizers, each speaking a distinct language, migrated to the New Hebrides in the millennia preceding European exploration in the 18th century. This settlement pattern accounts for the complex linguistic diversity found on the archipelago to this day. The British and French, who settled the New Hebrides in the 19th century, agreed in 1906 to an Anglo-French Condominium, which administered the islands until independence in 1980, when the new name of Vanuatu was adopted.



FATF status

Vanuatu is on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 24 February 2017

In February 2016, Vanuatu made a high-level political commitment to work with the FATF and APG to address its strategic AML/CFT deficiencies. Since October 2016, Vanuatu has enhanced the resources and capacity of its FIU. Vanuatu should continue to work on implementing its action plan to address its deficiencies, including by: (1) adequately criminalising money laundering and terrorist financing; (2) establishing and implementing adequate procedures for the confiscation of assets related to money laundering; (3) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets and other UNSCR sanctions; (4) ensuring a fully operational and effectively functioning financial intelligence unit; (5) strengthening preventive measures, including for wire transfers; (6) establishing transparency for the financial sector, and for legal persons and arrangements; (7) implementing an adequate AML/CFT supervisory and oversight programme for all the financial sector and trust and company service providers; and (8) establishing appropriate channels for international co-operation and domestic coordination policies and actions on identified risks and ensuring effective implementation. The FATF encourages Vanuatu to continue implementing its action plan to address its AML/CFT deficiencies.

APG issues public statement on Vanuatu – September 2015

The APG remains concerned about the serious deficiencies in Vanuatu's anti-money laundering and combating the financing of terrorism (AML/CFT) system.

Vanuatu's latest mutual evaluation report, adopted by the APG membership in July 2015, indicates that many of the deficiencies first identified by the APG in 2006 have not yet been adequately addressed. The report also finds that its system demonstrates low levels of effectiveness in implementing all of the FATF's global AML/CFT standards.

The most important technical compliance deficiencies include:

1. Inadequate criminalization of money laundering and terrorist financing;
2. Inadequate measures to implement United Nations resolutions for targeted financial sanctions against terrorists;
3. Inadequate customer due diligence (CDD); and

4. Inadequate supervisory frameworks for financial institutions and designated non-financial businesses and professions.

The APG calls on Vanuatu to expeditiously address the remaining deficiencies and to enhance the effectiveness of its system to combat money laundering and terrorist financing.

This statement, which was first issued in October 2014, will remain in place until the most important deficiencies are adequately addressed, as determined by the APG membership, informed by its peer monitoring and follow-up process

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Vanuatu was undertaken by the Financial Action Task Force (FATF) in 2015. According to that Evaluation, Vanuatu was deemed Compliant for 1 and Largely Compliant for 9 of the FATF 40 Recommendations.

Money Laundering/Terrorism Financing Risks (FATF Mutual Evaluation Report)

The most significant ML threat for Vanuatu arises from the laundering of foreign proceeds of crime, especially tax crimes (both domestic and international aspects), including illicit transnational flows of capital to and through Vanuatu and evidence of tax evaders exploiting Vanuatu's offshore sector. This occurs in the context of Vanuatu, as a tax haven, streamlining company registration in concert with the Capital Investment and Immigration Program (CIIP) arrangements. The evaluation team identified that no ML/TF risk profiling of the offshore sector has been carried out and risk-based supervision activity is not evident.

Confidential information from APG jurisdictions, and risk assessments conducted by regional bodies, clearly identify infiltration by transnational organised crime groups as a significant ML/TF threat, with reports that Vanuatu has been used for weapons smuggling, as well as for the transshipment of illicit drugs and pre-cursor chemicals using small craft, cruise ships and air passenger and cargo environments. In addition, Vanuatu operates a Flags of Convenience (FOC) register (approx. 94 % of Vanuatu's registered fleet is foreign owned), which is largely unregulated and could be used to facilitate illegal foreign fishing and movement of prohibited goods across borders.

The draft NRA is generally consistent with the assessment team's view of the risk situation, identifying Vanuatu's money laundering threats as arising primarily from foreign predicate offences (including foreign tax crimes), illicit cross border currency, domestic bribery and corruption, fraud (particularly VAT evasion) and drug offences. The high risk sectors are identified as the international sector (including international banks and companies), the remittance sector, trust and company service providers, currency exchange businesses, casinos, and interactive gaming businesses and of less, but still significant, risk are lawyers and accountants, real estate and high value asset dealers.

Some limited evidence exists of Vanuatu-based companies being linked to arms trafficking; however Vanuatu does not have a national policy to discourage PF, nor is any agency, or mechanism, assigned to address this issue.

Vanuatu does not have specific data available to estimate the country's exposure to cross-border illicit flows (related to crimes in other countries) and there is little information on the techniques used or the degree to which foreign proceeds are being laundered in Vanuatu. Vanuatu was not able to supply the evaluation team with assessments or aggregated data to set out a clear picture of the nature or level of proceeds-generating crime in Vanuatu; and discussion with investigative authorities and the FIU did not provide relevant information regarding the source, nature and scope of the threat from cross-border illicit flows.

The main money laundering techniques used in Vanuatu appear to be cash deposits and withdrawals, the use of professional facilitators such as lawyers and accountants, the buying and selling of high value assets, use of the offshore sector and the use of cash couriers or money or value transfer systems to move funds out of the country. In addition, the MVTs sector poses ML/TF risks in Vanuatu due to the nature of the activity, combined with limited supervision of the sector.

Key Findings from IMF Report: Vanuatu: 2013 Article IV Consultation:

The most recent mutual evaluation by the Asia Pacific Group on Money Laundering (APG) took place in 2006, which assessed Vanuatu as not passing 11 out of 16 core/key recommendations. In 2011, Vanuatu was placed under the "Enhanced Mutual Evaluation Follow-Up" process and subject to close monitoring by the APG. Since then, Vanuatu has enacted more comprehensive AML/CFT legislation and has established a Financial Intelligence Unit (FIU), but effective implementation and enforcement still need to be demonstrated. Personnel and financial resources of the FIU need to be significantly increased. The FIU, though severely understaffed, has prepared several cases for prosecution. A detailed report by Vanuatu on its AML/CFT progress will be analyzed and discussed by the APG membership at its annual meeting in July 2013.

US Department of State Money Laundering assessment (INCSR)

Vanuatu was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Vanuatu has an agricultural and tourism-based economy; it is closely tied to the economies of Australia and New Zealand. Vanuatu is an offshore financial sector with a relatively small number of licensed banks, totaling five domestic and eight international banks. Vanuatu is known for strict secrecy provisions that have prevented law enforcement agencies and

regulators from obtaining the beneficial owner information of entities registered in the offshore sector, except under a court order. As a result, legal entities (companies) and arrangements formed in Vanuatu face criminal misuse and are vulnerable to money laundering.

Vanuatu's money laundering threats are primarily from foreign predicate offenses (including foreign tax crimes), illicit cross-border currency movements, domestic bribery and corruption, fraud (particularly value added tax (VAT) evasion), and drug offenses. High-risk sectors include remittances and currency exchange businesses, trust and company service providers, casinos, and interactive gaming businesses. Of less, but still significant risk are lawyers and accountants, real estate and high-value asset dealers. Political instability, with frequent government leadership changes, has an impact on high level political commitment to establish and maintain an efficient and effective AML/CFT system.

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, casinos, lawyers, notaries, accountants, trust and company service providers, car dealers, real estate agencies, and insurance and securities companies

REPORTING REQUIREMENTS:

Number of STRs received and time frame: Not available

Number of CTRs received and time frame: Not available

STR covered entities: Banks, casinos, lawyers, notaries, accountants, trust and company service providers, car dealers, real estate agencies, and cash dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 0

Convictions: 0

RECORDS EXCHANGE MECHANISM:

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

With other governments/jurisdictions: YES

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

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2014, Vanuatu passed the Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) Act and AML/CFT regulations. In January 2015, Vanuatu made amendments to

the Proceeds of Crime Act (POCA) and Counter Terrorism and Transnational Organized Crime Act. However, according to international experts, these amendments do not adequately address noted deficiencies, including: inadequate criminalization of money laundering and terrorist financing; inadequate measures to implement UN resolutions for targeted financial sanctions against terrorists; inadequate customer due diligence (CDD); and inadequate supervisory frameworks for financial institutions and designated non-financial businesses and professions (DNFBPs). Given the active offshore financial sector and the company and trust formation sector, in addition to the prohibition to disclosing beneficial owner information of international companies, Vanuatu faces a risk of misuse of the sector.

The financial intelligence unit (FIU) does not have sufficient staff or financial and technical resources to effectively perform its duties, particularly in light of Vanuatu's enhanced AML/CFT legislation and the ML threat it faces from the offshore sector. Vanuatu authorities do not understand the role of the FIU and the value of financial intelligence. As a result, there is a low value placed on financial intelligence. Authorities beyond the Vanuatu Police Force (VPF) do not utilize the FIU or other financial information to any extent. Vanuatu's law enforcement agencies have not investigated or prosecuted any cases of money laundering despite it being a criminal offense since 2002. This is due largely to a lack of technical expertise and awareness of ML/TF issues on the part of VPF and prosecutors, but also to the lack of overarching policy, internal procedures, and guidelines.

Under the POCA, Vanuatu has a legal framework for confiscating, freezing, and seizing the proceeds of crime. The mechanisms for implementing this legislative power are compromised by a lack of coordination among responsible agencies as well as general unfamiliarity with the powers provided under the legislation. Similarly, a financial institution must immediately freeze the funds or assets of a terrorist entity; however, there is a lack of coordination and communication among the relevant government agencies in terms of identifying terrorist entities as designated in the UNSCRs and distributing such information.

The Government of Vanuatu should fully criminalize money laundering and terrorism financing; adopt measures to fully implement terrorism-related UNSCRs; enhance and enforce CDD measures; and take steps to ensure full AML/CFT compliance by financial institutions and DNFBPs. Vanuatu should continue to initiate outreach to all reporting institutions regarding their legal obligations and should ensure its enforcement agencies, principally the FIU, police, Prosecutor's Office, and Customs and Inland Revenue Department, are sufficiently resourced to be able to gather evidence, mount investigations, and bring charges. Legislatively, Vanuatu should establish requirements for financial institutions to address risks arising from new or developing technologies and businesses operating via internet accounts. Furthermore, Vanuatu should address the secrecy provisions in the International Companies Act that prevent law enforcement or regulatory authorities from obtaining beneficial ownership information of international companies without a court order.

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

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

States Party to United Nations Convention Against Corruption - States party to the United Nations Convention against Corruption (UNCAC), 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

Vanuatu 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

Vanuatu is considered to be an Offshore Financial Centre

International Sanctions

None Applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	N/A
World Governance Indicator – Control of Corruption	53

Section 3 - Economy

This South Pacific island economy is based primarily on small-scale agriculture, which provides a living for about two-thirds of the population. Fishing, offshore financial services, and tourism, with nearly 197,000 visitors in 2008, 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. Economic development is hindered by dependence on relatively few commodity exports, vulnerability to natural disasters, and long distances from main markets and between constituent islands. In response to foreign concerns, the government has promised to tighten regulation of its offshore financial center. In mid-2002, the government stepped up efforts to boost tourism through improved air connections, resort development, and cruise ship facilities. Agriculture, especially livestock farming, is a second target for growth. Australia and New Zealand are the main suppliers of tourists and foreign aid.

Agriculture - products:

copra, coconuts, cocoa, coffee, taro, yams, fruits, vegetables; beef; fish

Industries:

food and fish freezing, wood processing, meat canning

Exports - commodities:

copra, beef, cocoa, timber, kava, coffee

Exports - partners:

Thailand 59.9%, Japan 20.9% (2012)

Imports - commodities:

machinery and equipment, foodstuffs, fuels

Imports - partners:

China 19.9%, Singapore 18.6%, US 14.8%, Japan 11.4%, Australia 10.3%, Fiji 5.7%, NZ 4.7% (2012)

Banking

The banking sector is relatively small, consisting of four domestic banks and seven off-shore banks all of which are regulated by the Reserve Bank of Vanuatu (RBV). Greater regulation of the off-shore banks, conducted by the RBV enforcing local physical presence, led to a dramatic drop in the number of off-shore banks operating in Vanuatu.

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, French law, and customary law

International organization participation:

ACP, ADB, AOSIS, C, FAO, G-77, IBRD, ICAO, ICRM, IDA, IFC, IFRC, ILO, IMF, IMO, IMSO, IOC, IOM, ITU, ITUC (NGOs), MIGA, NAM, OAS (observer), OIF, OPCW, PIF, Sparteca, SPC, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 5 - Tax

Exchange control

There are no exchange controls in Vanuatu.

Treaty and non-treaty withholding tax rates

Vanuatu has signed **14 agreements** (0 DTC and 14 TIEA agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Australia	TIEA	21 Apr 2010	1 Sep 2011	No	Yes	
Denmark	TIEA	13 Oct 2010	not yet in force	No	Yes	
Faroe Islands	TIEA	13 Oct 2010	not yet in force	No	Yes	
Finland	TIEA	13 Oct 2010	8 Mar 2011	No	Yes	
France	TIEA	31 Dec 2009	7 Jan 2011	No	Yes	
Greenland	TIEA	13 Oct 2010	not yet in force	No	Yes	
Grenada	TIEA	31 May 2011	not yet in force	No	Yes	
Iceland	TIEA	13 Oct 2010	not yet in force	No	Yes	
Ireland	TIEA	31 May 2011	not yet in force	No	Yes	
Korea, Republic of	TIEA	14 Mar 2012	not yet in force	No	Yes	
New Zealand	TIEA	4 Aug 2010	not yet in force	No	Yes	
Norway	TIEA	13 Oct 2010	not yet in force	No	Yes	
San Marino	TIEA	19 May 2011	not yet in force	No	Yes	
Sweden	TIEA	13 Oct 2010	not yet in force	No	Yes	

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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