



## Threats and Vulnerabilities of the Banking System to Money Laundering in the Arab Maghreb: Lessons from a Regional Sectoral Assessment

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### Abstract:

This research paper conducts a sectoral assessment of the threats and vulnerabilities faced by the banking systems of the Arab Maghreb—specifically Algeria, Tunisia, Morocco, Libya, and Mauritania—regarding money laundering and terrorist financing. The main objective is to identify and compare structural and operational weaknesses across the region's banking sectors, with a focus on internal controls, regulatory compliance, and the effectiveness of supervisory frameworks. The study hypothesizes that institutional fragmentation, inconsistent supervision, and insufficient risk management contribute significantly to these vulnerabilities. Methodologically, the research employs a qualitative comparative approach, drawing on national sectoral risk assessments, semi-structured interviews with stakeholders, and a review of regulatory and institutional frameworks, structured around the Financial Action Task Force (FATF) methodology. Key findings reveal a moderately high level of vulnerability within the Maghreb banking sector, driven by deficiencies in beneficial ownership identification, inconsistent regulatory enforcement, limited technological and analytical capacity, and insufficient staff training. High-risk areas include large-scale cash transactions, politically exposed persons, real estate, and the use of digital and crypto-asset channels. The study also highlights the impact of the informal economy, transnational organized crime, and weak trade oversight as external risk factors. Notably, the risk-based approach (RBA) has yet to be fully institutionalized, and supervision remains largely compliance-based rather than risk-sensitive. The implications of these findings underscore the urgency of strengthening internal controls, adopting advanced technological solutions, enhancing staff training, and modernizing regulatory frameworks in line with international standards. Recommendations emphasize the need for improved inter-authority coordination, adoption of risk-based supervision, and greater regional and international cooperation to mitigate evolving money laundering and terrorist financing threats. The research concludes that aligning Maghreb banking systems with global best practices is essential for enhancing financial integrity and resilience.

**Keywords:** Arab Maghreb banking sector, Money laundering, Terrorist financing, Vulnerabilities, Risk-based approach (RBA)

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## Introduction :

Money laundering continues to pose a serious threat to the integrity and stability of financial systems worldwide. In the Arab Maghreb region—comprising Algeria, Tunisia, and Morocco—the risk of money laundering is amplified by structural, institutional, and geopolitical factors. Despite growing efforts to comply with international anti-money laundering (AML) standards, banking institutions in these countries still face major challenges in detecting and preventing illicit financial flows.

While individual countries have conducted national risk assessments, there remains a lack of comprehensive regional studies that examine common patterns, shared vulnerabilities, and differences in exposure to money laundering risks. In this context, a regional sectoral assessment offers valuable insights into how the Maghreb's banking sector is positioned against evolving financial crimes.

This study is based on the general hypothesis that banking systems in the Arab Maghreb face significant vulnerabilities due to institutional fragmentation, inconsistent supervision, and weaknesses in internal risk management frameworks.

To what extent are the banking systems of the Arab Maghreb vulnerable to money laundering threats, and how can a regional risk-based approach enhance their resilience?

More specifically, we propose the following hypotheses:

- H1: Internal control and compliance systems are underdeveloped or inconsistently applied across banks in the region.
- H2: Supervisory frameworks differ in rigor and effectiveness, leading to uneven enforcement of AML obligations.
- H3: Staff training and technological tools for risk detection remain limited or underutilized, reducing the capacity to mitigate complex money laundering schemes.

The main objective of this study is to identify and compare key threats and vulnerabilities to money laundering across the banking sectors of the Arab Maghreb. By doing so, it seeks to support policymakers and financial institutions in prioritizing reforms, improving regional coordination, and enhancing sectoral risk mitigation strategies.

This research is particularly important in a context where regional financial integration is increasing, and where cross-border financial flows necessitate a harmonized and cooperative approach to financial crime prevention.

Methodologically, the study relies on a qualitative comparative approach, drawing on the findings of national sectoral risk assessments, semi-structured interviews with key stakeholders, and a review of regulatory and institutional frameworks. The analysis is structured around the core components of the FATF (Financial Action Task Force) methodology, with particular attention to risk identification, vulnerability assessment, and the effectiveness of control mechanisms.

## **1 – The Structure of the Banking System in the Arab Maghreb**

The banking systems across the Arab Maghreb are characterized by the dominance of retail banking institutions, which play a pivotal role in financial intermediation and the provision of payment services. These banks ensure the collection of deposits, the granting of credit, and the delivery of essential financial services to both individuals and businesses. Revenues in the region's banking sectors are primarily derived from financing activities and traditional banking services.

### **1.1 – A Diversified Composition of the Banking Sector**

The Maghreb banking landscape includes a variety of financial actors, each operating under distinct regulatory frameworks specific to national legislations. While there are differences between countries, a common structure emerges across the region (Comité national d'évaluation des risques de blanchiment, 2023, p. 48):

#### **a. Banks: Cornerstones of the Financial System**

Banks remain the principal institutions in the sector, performing a wide array of banking operations defined by national banking laws. They are authorized to collect public deposits and offer comprehensive financial services.

Two main categories of banks are generally observed (Espace\_réservé1):

- **State-Owned Banks:**

Present in all Maghreb countries, state-owned banks often dominate the sector in terms of asset size and geographic coverage.

In countries like Algeria and Libya, they control a majority share of total banking assets and play a strategic role in funding public projects and national development priorities.

- These banks are heavily involved in financing infrastructure, energy, agriculture, and industry.

- **Privately-Owned Banks:**

1. Found throughout the Maghreb, private banks include both domestic institutions and subsidiaries of major international banking groups.

2. They typically focus on specific market niches such as SMEs, international trade, and digital financial services.
3. In countries like Morocco and Tunisia, privately-owned banks have made significant inroads in financial innovation and regional expansion.

## 1.2 – Financial Institutions: Specialized and Marginal Players

Alongside commercial banks, each Maghreb country hosts financial institutions governed by local banking regulations. These entities are not authorized to collect deposits from the public but are active in specialized financing areas such as (Comité national d'évaluation des risques de blanchiment d'argent, 2024, p. 34):

- Leasing and factoring
- Consumer credit
- Real estate and infrastructure financing

Although their systemic impact remains limited—often contributing less than 2% of total banking assets in each country—they play a crucial role in diversifying access to finance, especially for small businesses and targeted investments.

Their financing structure typically includes:

- Equity capital
- Interbank borrowings
- Limited institutional fundraising, which remains underdeveloped in most Maghreb markets

## 1.3 – A Sector Largely Dominated by the Public Sector

Across the Maghreb, the public sector plays a significant role in the banking industry, particularly in Algeria and Libya where state-owned banks hold a dominant market share. While Morocco and Tunisia have seen stronger growth in private banking, public banks continue to be instrumental in steering national development objectives.

This concentration impacts the dynamics of competition, innovation, and financial inclusion. It also underlines the importance of structural reforms to promote greater market openness, enhance governance, and encourage technological modernization across the region's banking systems (Juliette, p. 23).

## **2 – The Banking Sector in the National Assessments of Money Laundering and Terrorist Financing in the Arab Maghreb**

As part of their efforts to strengthen anti-money laundering (AML) and counter-terrorist financing (CFT) frameworks, the countries of the Arab Maghreb have undertaken National Risk Assessments (NRAs). These strategic exercises aim to identify, assess, and understand the threats and vulnerabilities to which each country is exposed in terms of money laundering and terrorist financing (ML/TF), in order to guide public authorities and private stakeholders toward the implementation of a risk-based approach.

These initiatives are aligned with international standards, particularly Recommendation 1 of the Financial Action Task Force (FATF), which requires countries to adopt a risk-based approach to AML/CFT. The legal and institutional frameworks in Algeria, Morocco, Tunisia, Libya, and Mauritania have progressively integrated this principle, reflecting their commitment to aligning with global standards

### **2.1 – Risk Assessment Methodology: Two Fundamental Components**

Across the region, the NRAs are generally based on two main components:

- Threats: These are assessed based on the nature and volume of illicit funds either generated domestically or introduced from abroad into national financial systems. Common threats in the Maghreb include:

- Corruption and embezzlement of public funds
- Tax evasion and customs fraud
- Smuggling and contraband networks (especially in border areas)
- Drug and human trafficking
- Financing of terrorism, including cross-border transfers through informal channels
- Vulnerabilities: These refer to weaknesses in the mechanisms for preventing,

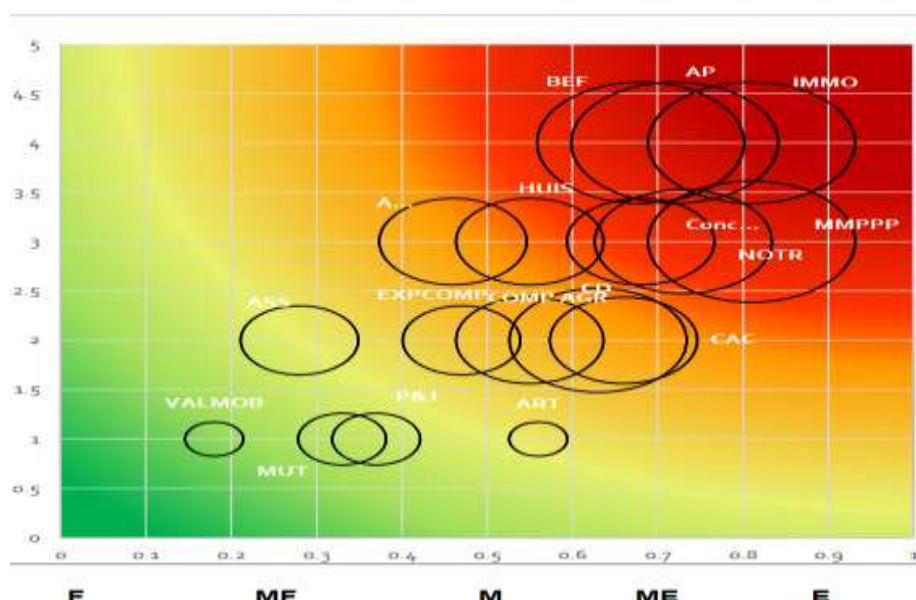
detecting, and mitigating ML/TF risks. They may stem from:

- Outdated or fragmented regulatory frameworks
- Limited capacity of supervisory and law enforcement authorities
- Insufficient cooperation and information sharing between institutions
- Inefficiencies in the reporting, monitoring, and sanctioning processes
- Low levels of awareness or training among financial sector actors

The results of the NRAs in Maghreb countries provide a structured risk-mapping tool that enables the adoption of more targeted and effective strategies for supervision, regulation, and enforcement. These assessments are essential for informing public

policies, guiding resource allocation, and enhancing the capacities of financial institutions and competent authorities to combat ML/TF more effectively (Comité national d'évaluation des risques de blanchiment, 2023).

**Graph n°1: ML Risk Level of Financial Institutions and DNFBPs**



Sectoral assessment has identified several weaknesses that have contributed to a banking sector vulnerability level deemed Moderately High, with a score of 0.68. This evaluation is based on the analysis of data provided by obliged entities as well as discussions and consultations with various financial sector stakeholders.

## 2.2 – Key Findings of the Sectoral Assessments in the Arab Maghreb

The sectoral assessments conducted across the Maghreb countries have identified a range of structural and operational weaknesses that contribute to a moderately high level of vulnerability in the banking sector. Although the level of vulnerability varies slightly from one country to another, common patterns have emerged, revealing systemic challenges in combating money laundering and terrorist financing (Bank, 2001, p. p128).

These assessments are based on data provided by obliged entities (banks and financial institutions), as well as consultations with national authorities, financial intelligence units (FIUs), and other stakeholders in the financial ecosystem.

Main Findings Across the Region



## **1. Deficiencies in Identifying Beneficial Owners**

- Customer Due Diligence (CDD) remains a cornerstone of the AML/CFT framework, designed to identify customers and beneficial owners, and verify that they are not engaged in illicit activities.
- However, in several Maghreb countries, financial institutions face limited access to registries or incomplete and non-centralized information regarding beneficial ownership.
- This gap poses a major vulnerability, as it hinders the detection of front companies and complex ownership structures often used for laundering funds.

## **2. Regulatory Compliance and Structural Weaknesses**

- Although access to the banking sector is generally well regulated, some jurisdictions in the region still show partial alignment with international AML/CFT standards, including deficiencies in the implementation of FATF recommendations.
- Regulatory loopholes, weak enforcement, and limited sanctions mechanisms create opportunities for misuse of the financial system.

## **3. Insufficient Understanding of ML/TF Risks**

- In all five Maghreb countries, assessments have pointed to a lack of risk awareness and technical expertise among both banking personnel and supervisory authorities.
- The absence of a risk culture significantly undermines the effectiveness of controls and the ability to detect suspicious activities.

## **4. Limitations in the Operational Implementation of AML/CFT Obligations**

- While compliance with legal requirements is generally observed, many obliged entities lack the technological tools and analytical capacity to effectively implement AML/CFT measures.
- This includes difficulties in managing transaction monitoring systems and delays in reporting suspicious activity to financial intelligence units.

## **5. Insufficient Risk-Based Supervision (RBS)**

- Supervisory authorities in the region often rely on traditional compliance-based approaches, rather than adopting risk-sensitive supervisory methodologies.
- This reduces the ability to identify and address higher-risk institutions or operations, thereby limiting preventive effectiveness.

## 6. Lack of a Generalized Risk-Based Approach in the Sector

- The risk-based approach (RBA) is not yet fully integrated into the operational culture of banks and financial institutions across the Maghreb.
- As a result, institutions struggle to prioritize higher-risk clients, transactions, or sectors, and resource allocation remains inefficient.

These findings underscore the urgency of strengthening control and supervision mechanisms in the banking sector. Key priorities include:

- Expanding training programs for financial institutions and regulators,
- Improving technological and analytical tools for compliance and detection,
- Updating regulatory frameworks to better reflect international best practices,
- And above all, institutionalizing the risk-based approach (RBA) as the cornerstone of AML/CFT efforts.

The adoption of risk-based supervision (RBS) stands out as a strategic imperative to reinforce the Maghreb banking sector's resilience against evolving ML/TF threats (Comité national d'évaluation des risques de blanchiment, 2023).

| Threats                      | Corruption      | Tax Fraud     | Drug Trafficking | Administrative customs violation | Smuggling of goods | Migrant Smuggling |
|------------------------------|-----------------|---------------|------------------|----------------------------------|--------------------|-------------------|
| Impact on the banking system | Indirect impact | direct impact | Indirect impact  | direct impact                    | Indirect impact    | Indirect impact   |

## 3 – Major Money Laundering Threats Facing the Banking System in the Arab Maghreb

The banking systems across the Arab Maghreb are increasingly exposed to complex and evolving money laundering threats. Criminals in the region exploit regulatory weaknesses, informal economies, and cross-border flows to conceal the origins of illicit funds. These practices are often facilitated by a lack of transparency in financial and trade operations, as well as the growing use of new technologies and crypto-assets.

This section identifies the main money laundering typologies, external contextual risk factors, and the emerging threats linked to financial innovation in the region (Comité national d'évaluation des risques de blanchiment, 2023).



### 3.1 – Typologies and Methods Used by Money Launderers

#### Corruption

- Acquisition of real estate, luxury goods, and high-value vehicles using illicit public funds.
- Cross-border transfers using informal channels to escape financial oversight.
- Structuring techniques (e.g. transaction splitting, concealment of beneficial owners) to avoid suspicion (Bair, 2002, p. 26).

#### Tax Fraud

- Use of real estate investment and luxury consumption to place undeclared income.
- Recourse to informal or parallel exchange markets to launder proceeds.
- Under- and over-invoicing in trade transactions, especially within intra-Maghreb trade.

#### Drug Trafficking

- Creation of shell companies or front businesses to launder narcotics proceeds.
- Investment in sectors with weak regulatory oversight (e.g. construction, commerce).
- Misuse of international transfers (notably over-invoicing) to move funds offshore.

#### Customs Violations and Smuggling

- Manipulation of import/export documentation to justify the illicit movement of capital (Reuter, 2004, p. 147).
- Integration of smuggled funds into legitimate enterprises via front companies.
- Misuse of banking services to mask undeclared cash-based transactions.

#### Migrant Smuggling

- Reinvestment of human trafficking proceeds in real estate and transport sectors.
- Use of informal value transfer systems (hawala, cash couriers).
- Establishment of transnational laundering routes exploiting legal loopholes across the region.

### 3.2 – External Risk Factors Influencing Money Laundering in the Maghreb

- Informal Economy: Widespread across the Maghreb, it facilitates untraceable cash movements and reduces the visibility of financial transactions.

- Transnational Organized Crime: Networks operating across borders (especially in the Sahel, Libya, and Algeria's borders) contribute to narcotics, arms, and human trafficking (Bank, Enhancing Contributions to Combating Money Laundering: Policy Paper, 2001, p. 21).
- Geopolitical and Geographic Factors:
  - Coastal and border cities (e.g. Casablanca, Tripoli, Oran, Sfax, Nouadhibou) are hubs for illicit trade and informal fund transfers.
  - Certain regions are particularly vulnerable to specific threats (e.g. the southern Algerian border for smuggling; western Tunisia for contraband).
- International Trade Channels: Weak customs oversight and trade-based money laundering (TBML) practices are prevalent, particularly through over/under-invoicing and fictitious imports/exports.

### 3.3 – The Growing Role of New Technologies and Crypto-Assets

- Digital Transfers: Electronic wallets and mobile payments are expanding, especially among the youth and unbanked, creating new laundering channels if not adequately monitored (Spremann, 2001, p. 24).
- Crypto-Assets: The absence of harmonized regulation across the Maghreb increases the risk of cryptocurrencies being used to obscure transactions and bypass the banking system.
- E-Commerce Platforms: Online platforms accepting crypto-payments may be used to integrate illicit funds under the cover of legitimate commercial activity.

### 3.4 – Impact of Threats on the Maghreb Banking Sector

While not all money laundering threats directly affect the formal banking sector, several typologies have a significant impact on financial institution (Masciandaro, 2003, p. 29)s: Direct Threats (Tax Fraud and Trade-Based Laundering):

- Use of banking infrastructure to deposit or invest fraudulent proceeds.
- Manipulation of trade documents and customs declarations to facilitate capital flight via bank channels.

Indirect Threats (Corruption, Drug Trafficking, Smuggling, and Human Trafficking):

- These activities often rely on informal mechanisms, such as cash transactions or hawala, limiting their immediate visibility in banking operations.

- However, proceeds from these crimes may eventually enter the formal economy through real estate, luxury purchases, or shell companies—thus affecting the banking sector indirectly.

Emerging Risks:

- The rapid digitization of financial services and the diffusion of crypto-assets may shift laundering patterns, bringing previously informal operations into the banking system.
- This trend requires enhanced vigilance, particularly in transaction monitoring, digital asset regulation, and cross-border cooperation.

### Conclusion and Strategic Imperatives

The exposure of Maghreb banking systems to money laundering threats is currently moderate but evolving rapidly, particularly due to the convergence of organized crime, weak trade oversight, and technological innovation.

To mitigate these risks, authorities and financial institutions should prioritize:

- Strengthening transaction monitoring systems.
- Enhancing capabilities to detect beneficial ownership and complex structures.
- Promoting regional cooperation and intelligence sharing across FIUs and supervisors.
- Accelerating the adoption of risk-based AML frameworks tailored to evolving threats.

Despite partial exposure, the region's banking systems remain vulnerable to both traditional and emerging laundering mechanisms—requiring coordinated and forward-looking policy responses.

### 3 – Structural and Regulatory Vulnerabilities of the Banking Sector to Money Laundering in the Arab Maghreb

The banking sector in the Arab Maghreb plays a key role in the fight against money laundering, yet it faces multiple vulnerabilities that can be exploited by criminals. These vulnerabilities are both structural—linked to the organization and functioning of banks—and regulatory, reflecting gaps in the implementation and enforcement of AML/CFT frameworks.

Across the region, financial institutions vary in size and sophistication, but common weaknesses persist. These include insufficient control and vigilance mechanisms,

uneven application of compliance obligations, limited access to technological solutions, and fragmented supervisory practices. While Maghreb banks may exhibit relatively low exposure due to their modest scale and concentrated client base, certain operations and client categories significantly elevate their vulnerability.

This section analyzes the main vulnerabilities affecting Maghreb banks and outlines strategic priorities to strengthen the regional AML/CFT architecture (Les cahiers de la sécurité intérieure, 1995, pp. 195-196).

### **3.1 – Weaknesses in Internal Controls and Vigilance Mechanisms**

Although banks in the Maghreb generally operate with limited geographic reach and client segmentation, several high-risk areas compromise their resilience to money laundering (Dowers, 2003, p. 47):

- **Large-Scale Cash Transactions:** High levels of cash usage in countries like Libya, Mauritania, and Algeria reduce transaction traceability and facilitate placement of illicit funds.
- **Politically Exposed Persons (PEPs):** Regional banks often face challenges in identifying, classifying, and monitoring PEPs and their associates, especially where beneficial ownership transparency is weak.
- **Real Estate Developers and Dealers in High-Value Goods:** Transactions involving these sectors often lack proper due diligence, posing a major vulnerability, particularly in Tunisia and Morocco.
- **Low Capacity in Customer Risk Profiling:** Banks across the region struggle with risk-based segmentation, leading to inconsistent due diligence practices.
- **Limited Integration of AML into Core Banking Systems:** In several institutions, AML monitoring remains manual or semi-automated, increasing the risk of human error and undetected suspicious activities.

### **3.2 – Challenges in Implementing AML/CFT Obligations**

Regulatory compliance frameworks exist in most Maghreb countries, but implementation remains uneven due to (Mohammed, 2002, p. 49):

- **Insufficient Human and Technological Resources:** Especially in smaller or state-owned banks, where AML teams are understaffed and poorly equipped.
- **Lack of Uniform Training:** Many compliance officers lack specialized training, leading to weak internal awareness and inconsistent application of procedures.

- **Inefficient Reporting Systems:** Suspicious transaction reporting (STR) mechanisms are often underutilized or poorly understood, resulting in underreporting.
- **Limited Access to Beneficial Ownership Information:** Weak registries or lack of access to centralized databases in many countries hinder proper identification of clients.
- **Fragmented Oversight of Financial Groups:** Supervision is often siloed between domestic and cross-border operations, reducing the capacity to detect complex laundering schemes.

### 3.3 – Shortcomings in Banking Supervision and Regulatory Coordination

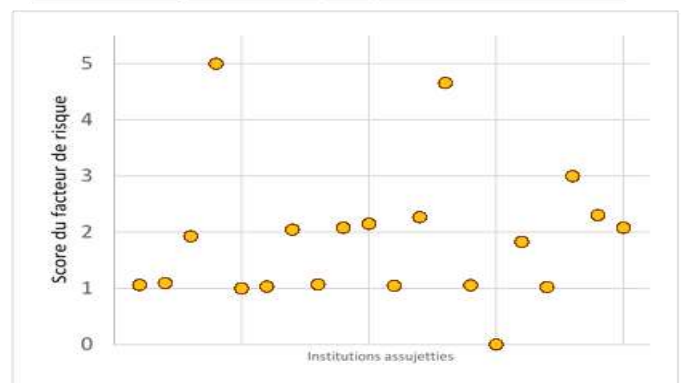
Maghreb central banks and financial regulators face key obstacles in enforcing AML/CFT frameworks (Masciandaro, 2003, p. 78):

- **Inconsistent Risk-Based Supervision:** Many supervisory authorities still rely on rule-based inspections rather than adopting dynamic, risk-based approaches.
- **Weak Feedback Loops:** Communication between regulators, FIUs, and financial institutions is often one-directional, limiting the refinement of risk assessments.
- **Poor Coordination with Other Regulators:** Coordination between tax authorities, customs, law enforcement, and banking supervisors remains limited, undermining integrated financial crime prevention.
- **Delays in Regulatory Updates:** The rapid evolution of money laundering techniques is not always matched by timely regulatory reform or implementation (e.g. crypto-assets, fintechs).

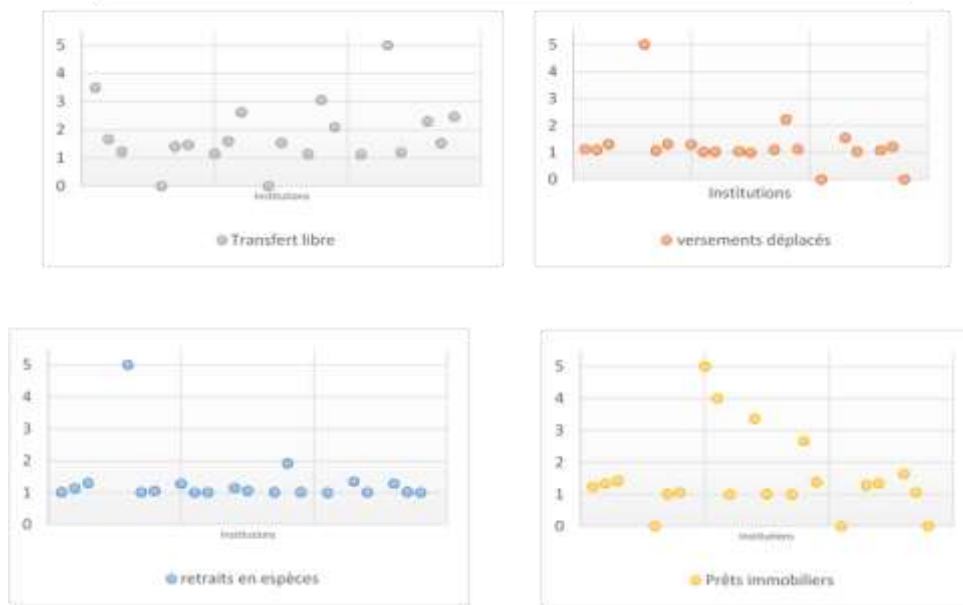
**Graph 2: Institutions Exposure to the "Real Estate Developers" Risk Factor**



**Graph 3: Institutions' Exposure to the "Politically Exposed Persons (PEP)" Risk Factor**



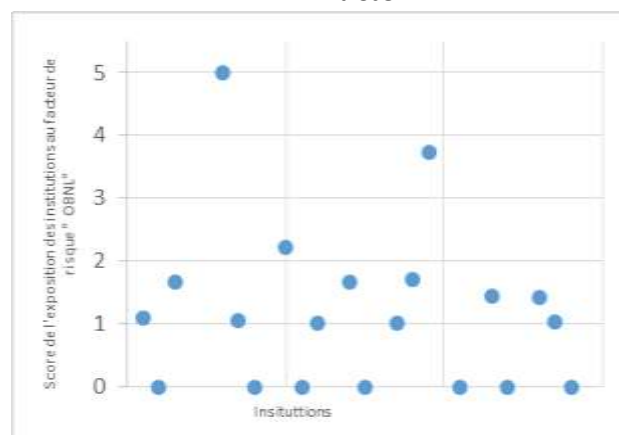
**Graph 4: Vulnerability Scores of Risk Factors – "Cash Withdrawals, Displaced Deposits, Mortgage Loans, and Free Transfers"**



Regarding vulnerabilities related to the risk factors "Real Estate Developers" and "Politically Exposed Persons (PEPs)," it has been noted that institutions within this group exhibit an exposure level of 40% and 15%, respectively.

Furthermore, non-profit organizations (NPOs), which rely heavily on external resources, can be highly exposed to the risk of terrorist financing. The following graph illustrates the vulnerability scores of obligated entities related to the "NPO" factor.

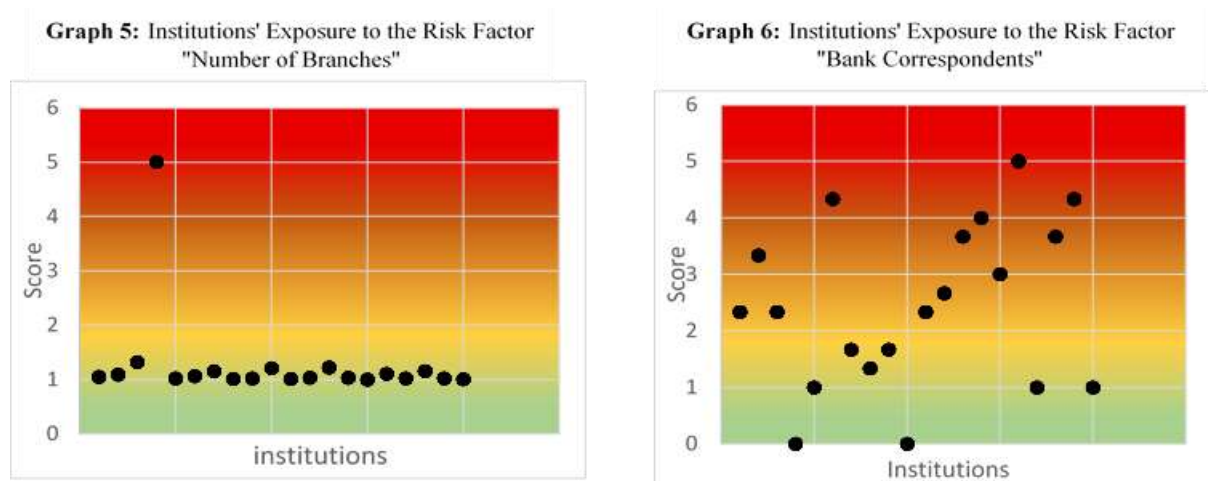
**Graph 4: Institutions Exposure to the "Non-Profit Organizations (NPO)" Risk Factor**



Moreover, cash withdrawals and displaced deposits represent transactions that are particularly difficult to monitor.



The above charts, which illustrate the inherent vulnerabilities of the four most significant risk factors within the "High-Risk Products, Services, and Transactions" category—namely, free transfers, mortgage loans, cash withdrawals, and displaced deposits—show that institutions exhibit high levels of risk in relation to these factors, reaching 25%, 20%, 10%, and 10%, respectively.



that must be addressed to enhance the effectiveness of the AML/CFT framework (Juliette, p. 46).

#### **4.1 Key Findings of the Sectoral Assessment on Money Laundering Risk**

The assessment revealed structural and operational weaknesses that undermine AML/CFT effectiveness, highlighting urgent areas for corrective action:

##### **4.1.1 Differentiated Exposure to Risks**

- Banks are more exposed due to diverse product offerings, higher transaction volumes, and a broad customer base. They face particular vulnerabilities linked to Politically Exposed Persons (PEPs), international transfers, and cash transactions.
- Financial institutions exhibit lower exposure overall due to their smaller scale and narrower clientele but remain vulnerable through operations like business financing and leasing, which can be exploited for laundering.

##### **4.1.2 Deficiencies in Internal Control Mechanisms**

- Insufficient training and awareness among staff regarding money laundering risk indicators and typologies.
- Limited automation of transaction monitoring, hindering detection of unusual activities and efficient alert management.
- Weak monitoring of high-risk clients, notably inadequate updating of client information and poor verification of beneficial ownership.

##### **4.1.3 Challenges in Implementing Reporting Obligations**

- Complex internal procedures delay the transmission of Suspicious Transaction Reports (STRs) to competent authorities.
- Knowledge gaps among bank employees reduce the quantity and quality of STRs despite high transaction volumes.
- Limited coordination with supervisory bodies hampers follow-up actions and enforcement.

##### **4.1.4 Limitations of Banking Supervision Mechanisms**

- Absence of a risk-based approach in supervision limits regulatory focus on the most vulnerable entities.
- Weak enforcement of sanctions reduces deterrence against AML/CFT non-compliance.
- Need to strengthen cooperation and information exchange between regulators and financial institutions to improve oversight.

## 4.2 Corrective Measures and Identified Best Practices

To address these weaknesses and bolster the resilience of the Algerian banking sector, several corrective actions and best practices are recommended:

### 4.2.1 Strengthening Vigilance and Control Mechanisms

- Integrate Advanced Technological Solutions:
  - Employ artificial intelligence and machine learning to analyze transactions and detect anomalies in real time.
  - Use behavioral analytics to identify suspicious activities based on customer patterns.
  - Explore blockchain technology to enhance traceability and reduce data manipulation risks.
- Enhance Monitoring of High-Risk Clients:
  - Implement stricter due diligence procedures for PEPs and entities in high-risk sectors (e.g., import/export, real estate, informal currency exchange).
  - Apply a risk-based approach to tailor monitoring efforts to client and transaction risk levels.

### 4.2.2 Improving Compliance and Reporting Procedures

- Simplify and Standardize Internal Reporting:
  - Standardize processes for STR submission to ensure timely and efficient reporting to authorities.
  - Digitize and automate reporting workflows to facilitate rapid detection and response.
- Strengthen Staff Training and Awareness:
  - Conduct regular training on emerging money laundering techniques and detection methods.
  - Develop practical guides and materials to improve staff understanding of AML/CFT obligations and risk indicators.

### 4.2.3 Enhancing Banking Supervision and Inter-Institutional Cooperation

- Tighten Control on Compliance Mechanisms:
  - Increase the frequency and depth of AML audits within banks.
  - Strengthen enforcement and sanctions to reinforce compliance discipline.
- Improve Coordination Among Authorities:

- Foster stronger collaboration between the Bank of Algeria, judicial bodies, the Financial Intelligence Unit (CTRF), and other regulators for more effective investigation coordination.
- Create secure platforms for information sharing to enhance joint action against illicit financial networks.

This comprehensive set of findings and recommendations provides a clear roadmap for reinforcing the Algerian banking sector's defenses against money laundering, with broader implications for the entire Maghreb region's financial integrity.

### **4.3 Strategic Approaches to Enhance Supervision and Prevention**

To strengthen the resilience of the Algerian banking sector against money laundering threats and ensure more effective supervision, several strategic approaches must be implemented. These aim to adapt the regulatory framework, reinforce risk management, and foster a more robust banking ecosystem (Bank, Enhancing Contributions to Combating Money Laundering: Police paper, 2001).

#### **4.3.1 Adoption of a Risk-Based Approach (RBA)**

Integrating a risk-based approach is essential to optimize supervisory efforts and concentrate resources on the most vulnerable areas.

- Alignment with FATF Recommendations:
  - Strengthen the application of RBA principles in banks' compliance policies to prioritize key risks.
  - Adapt vigilance mechanisms to the specific characteristics of high-risk clients, products, and geographic regions.
- Implementation of Continuous Risk Assessment:
  - Develop dynamic methodologies for regular updates of risk mapping.
  - Leverage analytical data and artificial intelligence tools to anticipate emerging threats and adjust controls accordingly.

#### **4.3.2 Modernization of the Regulatory and Institutional Framework**

Given technological advancements and new money laundering methods, the regulatory framework must evolve to mitigate vulnerabilities within the banking system (Reuter, 2004).

- Adapting Regulations to New Financial Realities:
  - Establish stricter oversight of crypto-assets and digital payment services to prevent their misuse for money laundering.

- Incorporate emerging financial crimes, such as digital fraud and cyberattacks, into AML/CFT legislation.
- Enhancing Transparency and Traceability Requirements:
  - Mandate systematic identification of ultimate beneficial owners for transactions and corporate clients.
  - Implement strengthened reporting mechanisms and centralized registers to improve traceability of financial flows.

#### **4.4 Developing a More Resilient Banking Ecosystem**

The strength of the banking sector depends on a solid institutional framework and a deeply embedded compliance culture within financial institutions.

- Promoting a Culture of Compliance and Ethics:
  - Establish incentive programs for banks that rigorously adhere to AML/CFT obligations.
  - Develop ongoing awareness campaigns and training programs for banking personnel and supervisory authorities.
- Strengthening International Cooperation:
  - Encourage collaboration with international organizations to share best practices and anticipate emerging trends.
  - Develop bilateral agreements with other countries to facilitate financial information exchange and combat cross-border money laundering effectively.

#### **Conclusion**

The sectoral assessment of money laundering risk in the Algerian banking sector highlights the urgent need for comprehensive and coordinated enhancement of prevention and supervision mechanisms. Although significant progress has been made, challenges persist—particularly in supervision effectiveness, robustness of internal controls, and adaptation to evolving financial threats.

Identified vulnerabilities underline the necessity to intensify efforts in detecting and mitigating risks, especially those linked to tax fraud, customs violations, and exploitation of new financial technologies by criminals.

The implementation of the corrective measures and strategic approaches presented in this assessment will:

- Enhance the resilience of the banking sector against sophisticated money laundering techniques;

- Strengthen controls and compliance mechanisms within financial institutions;
- Optimize coordination among financial sector stakeholders and supervisory authorities;
- Align Algeria's regulatory and institutional framework more closely with international AML/CFT standards, consistent with FATF recommendations.

By advancing these efforts, the Algerian banking sector will be better prepared to face emerging risks and safeguard the integrity and transparency of the national financial system.

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