

REPUBLIC OF ZAMBIA

FINANCIAL INTELLIGENCE CENTRE

**MONEY LAUNDERING/TERRORIST FINANCING
TRENDS REPORT 2017**

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ACRONYMS

AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
AMLA	Anti- Money Laundering Authority
AML	Anti-Money Laundering
CBDR	Cross Border Declaration Report
CNY	Chinese Yuan
CTR	Currency Transaction Report
DNFBP	Designated Non-Financial Businesses and Professions
EUR	Euro
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
GBP	Great British Pound
LEA	Law Enforcement Agency
ML/TF	Money Laundering/Terrorist Financing
MVTS	Money Value Transfer Services
MUR	Mauritius Rupee
NGO	Non – Governmental Organization
NRA	National Risk Assessment
PACRA	Patents and Companies Registration Agency
PEP	Politically Exposed Person
USD	United States dollar
SDR	Spontaneous Disclosure Report
STR	Suspicious Transaction Report
ZAR	South African Rand
ZMW	Zambian Kwacha

FOREWORD

The Financial Intelligence Centre (the Centre) strengthened its operational capabilities and stakeholder outreach in 2017, with special focus given to private sector entities exposed to Money Laundering and Terrorist Financing (ML/TF) risks. The Centre also continued to support law enforcement and national security partners in our shared objective of protecting the Zambian community from crimes associated with money laundering and terrorism financing.

In 2017, the Centre also took on the role of “Supervisor of Last Resort” for reporting entities that presently do not have a clearly laid down legal framework for monitoring and regulating their responsibilities for reporting ML/TF activities, such as: Casinos, Motor Vehicle Dealers and Real Estate Agencies. This followed the amendment of the Financial Intelligence Act No. 4 of 2016. Another significant development was the incorporation by the Centre of a number of recommendations of the National Risk Assessment on ML/TF conducted in 2016.

Such initiatives have enabled the Centre to benefit from the collective knowledge and experience of the private and public sectors to deliver new insights into the risks, methods and trends in money laundering and terrorist financing. Resulting from these developments, this report which is the fourth the Centre has published, provides a number of additional insights into the nature and scale of ML/TF activities analysed and disseminated during the year.

The analysed reports of the Centre have provided important intelligence for investigations into money laundering and other serious financial crimes by law enforcement agencies. While the results of the investigations are at various stages, the Centre has started to see some cases go to court. However, the level of convictions relative to cases disseminated is still low.

It is our considered view that Zambians are best protected from the harms of financial crime when the collective efforts continue to be towards preventative measures and increasing its capacity to detect the vices.

Accordingly, the Centre has relationship with industry to generate new understanding of sector and product based ML risks.

The FIC’s reports were also critical to other achievements including detecting non-compliance by reporting entities, industry outreach and education on ML/TF methodologies, and contributing to the ongoing reforms of the AML/CTF regime.

Further, the expertise of the private and public sectors are applied to addressing the risks that otherwise harm the integrity of Zambia's financial systems and increase the country's exposure to money laundering.

Whilst the awareness of money laundering and terrorist financing activities occurring in the country is improving, we are however yet to record significant progress in terms of convictions and forfeiture of assets that are tainted. This is a national challenge that requires the collective efforts of all public agencies and communities to address if we are to protect the country from financial crimes.

Mary .C. Tshuma (Mrs)
Director General
Financial Intelligence Centre



PURPOSE

The objective of this report is to assist and sensitise AML/CFT stakeholders and the public on the existing, continuing and emerging trends in ML/TF. The report also aims to influence policy formulation and assist stakeholders in the AML/CFT regime through strengthening of cooperation and better understanding of risks, trends and methods being applied by suspected criminals in the AML/CFT environment.

BACKGROUND OF THE FIC

The FIC was set up in 2010 following the enactment of the Financial Intelligence Centre Act, No. 46 of 2010 as amended by the Act No. 4 of 2016 (the Act) and became operational in November, 2013. Section 5 of the Act provides that the FIC shall be the sole designated agency responsible for the receipt, requesting, analysing and disseminating of the disclosure of suspicious transaction reports. The core function of the FIC is to receive reports of financial transactions from reporting entities and other sources, analyse them, and disseminate financial intelligence to Law Enforcement Agencies (LEAs) and foreign designated authorities.

HIGHLIGHTS OF 2017



The Centre disseminated a total of 425 cases to local Law Enforcement Agencies (LEAs).



Money Value Transfer Services (MVTs) companies commenced filing of STRs



The FIC embarked on AML/CFT inspections of reporting entities to ascertain compliance with the FIC Act



Launch of the National Risk Assessment Report



The Centre started receiving and analyzing Cross border and Currency transaction reports (CTRs & CBCDRs) in 2017



1.0 DISSEMINATIONS

A dissemination is a report that the Centre has analysed and on which reasonable grounds for money laundering, terrorist financing, financing of proliferation or any serious crime exists and recommended for investigation by Law Enforcement Agencies (LEAs).

In 2017, the Centre analyzed and disseminated a total of 425 reports to local Law Enforcement Agencies (LEAs).

The majority of cases were disseminated on the grounds of suspected tax evasion and corruption. Some intelligence reports were disseminated to multiple LEAs.

1.1 Violations on which reports were disseminated

- Possible violations under the Income Tax Act and Customs Act
- Possible violations under the Penal Code and Proceeds of Crime Act
- Money Laundering, Drug trafficking, Forgery
- Possible violations under the ACC Act, 2012 -Suspected bribery and Corruption
- Possible violations of laws in respective countries.

The amount of estimated losses related to the above violations in 2017 was K4.5 billion (USD 450 million). The table below shows a breakdown of the estimated losses.

Suspected Offence	Estimated loss
Tax Evasion	K3.9 Billion
Corruption	K500 Million
Money Laundering	K90.5 Million
Fraud	K3 Million
Total	K4.5 Billion

1.2 Feedback on the disseminated cases

Following disseminations made to Law Enforcement Agencies, feedback was received by the FIC on some cases.

During 2017, one LEA recovered ZMW 25 million on cases disseminated to it by the Centre while another LEA provided feedback to the FIC that three disseminated cases led to the recovery of USD 2,300 and ZMW 307,000.

Furthermore, five cases were under prosecution, twenty three (23) under investigation and one (1) conviction was secured.

Zambia Police advised that one case was in the courts of Law undergoing prosecution and eleven (11) cases were under investigation.

The ACC advised that five (5) cases were under investigation and one (1) had been closed.



2.0 TREND ANALYSIS

The trends and patterns of activities observed in 2017 were in many ways similar to those observed in the preceding year.

2.1 Large and Unusual Cash Deposits

Cash related transactions, which amounted to ZMW 181,534,059.93, accounted for 33.3% of the STRs that were reported in 2017. As in other years, it was observed that large amounts of cash were being deposited in individual and business accounts. These would then be followed by wire transfers to individuals and corporations outside the country. Most beneficiaries were based in Asia.

2.2 Corruption

The number of reports received on grounds of suspected corruption represented 39% of the total number of reports received in 2017. The value of transactions was significantly high and accounted for over ZMW 6.3 billion of the total value of cases analyzed. Cases of corruption continued to be linked to public procurement contracts and were often perpetrated by PEPs or their associates.

2.3 Illegal Small Scale Mining Activity

The Centre has continued to note the trend of foreigners purchasing stolen or illegally mined copper ore from small scale miners. In most instances, the foreigners buy the slimes and copper ore for cash. It was also noted that there were some cases of illegal takeovers of mining licenses from the locals. The amount detected was estimated to be in excess of ZMW 5 billion.

2.4 OTHER TRENDS

2.4.1 Construction

During the year, it was observed that some businesses in the construction sector made large cash deposits. This is unusual considering that payment for services provided in this sector are made either by cheque or other safer electronic means instead of cash. It was noted that a total of USD 9,668,421.14 and ZMW 14,150,918.70 cash deposits were made by construction businesses. In 2017, a total of USD 3,430,852.81 and ZMW 391,553,520.20 cash withdrawals were reported to the Centre.

It was further observed that a number of construction companies awarded contracts by some quasi-government institutions had no capacity to execute the works, while others were not tax compliant.

2.4.2 Agriculture

Some high value CTRs received by the FIC were attributed to the agriculture industry. Maize, Soya beans, cotton, fish and fertilizer sales were the most frequently purchased/sold during the period under review. A total of ZMW 80,245,779.60 was involved.

A number of STRs analysed in 2017 were on individuals trading in Maize. Some of these individuals used the maize trade to commingle funds suspected to be obtained illicitly. It is suspected that most of this activity is not taxed.

2.4.3 Casinos and betting stores

Most recently, the country has seen a rise in the establishment of casinos and betting stores. Most of these stores are unlicensed with many not being registered with local authorities such as the Zambia Revenue Authority or the Licensing Committee under the Ministry of Tourism and Arts. Casinos provide an easy way to launder illegally obtained funds as these funds are co-mingled with winnings in these stores.

In some instances, the Centre noted trends bordering on cash courier in some casinos. This has created an impetus for the establishment of adequate regulation for this sector.

3.0 CONTINUING AND EMERGING TRENDS

3.1 CONTINUING TRENDS

3.1.1 Procurement Corruption

The trend in which companies connected to PEPs being involved in suspected corruption and money laundering has continued. In some instances, shell companies have been used to conceal the beneficial owners of these companies.

We noted that suspected procurement corruption mostly occurred in Government and Quasi Government Institutions when the private sector is contracted to do works. The attraction to procurement corruption is the large sums involved and the difficulty in detection due to collusion and management override. The main methods of procurement corruption are direct bidding and subsequent variation of contract sums that take away the value of tendering works. In 2017 the Centre analysed 624 reports on suspected procurement corruption.

Methods of Procurement Corruption

In our inquiries, we noted the following methods of procurement corruption;

- Collusion between employees and vendors
- Vendors defrauding the corporation
- Collusion between Politically Exposed Persons and vendors or suppliers
- Employees defrauding their employers
- Further, we noted that bribery, bid-rigging, embezzlement, and submission of false claims are the most common schemes.

3.1.2 Irregular Immigration Status

Foreign Nationals who are issued with either employment or temporary permits have continued to engage in business activities and have set up companies in Zambia without investment permits.

It was also noted that these suspects, especially Asian nationals, transfer the proceeds of these business activities using personal accounts to their countries of origin. The practice of using personal accounts for business continues to be a method for facilitating illicit financial flows.

3.1.3 DNFBP's Used as Vehicles for Money Laundering

It has been observed that professionals such as lawyers, accountants or real estate agents have continued to be used as vehicles for money laundering. Most criminal elements have resorted to using these professionals to mask the source of funds and aid its movement to foreign destinations for reinvestment or use. In the cases analysed by the FIC during 2017, approximately ZMW 50 million was channeled through lawyers' accounts. The funds were subsequently used to buy assets or withdrawn in cash presumably for the benefit of the real owners.

3.1.4 Use Of Personal Accounts for Business Purposes and Unregistered Businesses

The trend in the use of personal accounts for business purposes in order to evade tax, has continued. Through this act, Zambia has continued to lose revenue due to tax evasion by individuals and aggressive tax avoidance schemes implemented by large international corporations.

The FIC carried out a special exercise on currency transaction reports to determine how much business proceeds were passing through personal accounts. The amounts were estimated to be ZMW 872 million and USD 48 million. This is a continuing trend where individuals that transact on behalf of corporates receive large cash amounts and make these large deposits into individual accounts. This could be a further indication of the continuing trend by individuals to use personal accounts to conduct business transactions and thus avoid reporting obligations and possibly evade tax.

In the usage of unregistered businesses, these are instances where businesses operate without being registered with the Revenue Authority or PACRA. It was noted that a number of such businesses were given contracts which failed to perform.

3.1.5 Foreign Currency Transactions In Border Towns

The Centre observed transactions in border towns where accounts belonging to Zambian nationals were being utilized by foreigners to purchase foreign currency. Zambian nationals would open bank accounts and within a short period of time, begin to receive huge cash deposits above their declared income.

These funds would almost immediately be debited through foreign currency purchases. This trend remains most prevalent in the border towns of Livingstone and Nakonde.

In 2017, the Centre received 41 reports relating to foreign currency transactions in border towns.

3.1.6 Real Estates Investments

The Centre noted a continuing trend within the Real Estate sector that involved deceptive land or property dealings, as well as money laundering activities by both foreign and Zambian nationals. In most instances the profiles of the persons substantially differed with the properties built/purchased. It was also noted that funds that were illegally obtained through government contracts were invested in assets and properties using proxies of PEPs.

3.1.7 Cyber Crime

The Centre has noted an increase in the number of reports on Cyber fraud. A number of individuals were defrauded with substantial losses. We noted the following cases;

Case 1

A car dealership advertises through the Facebook platform. An interested individual makes contact with the dealer and places an offer. The offer is accepted and the individual is informed that shipment will be done once payment is received by the dealer. Once payment is made, the dealer then abandons all forms of communication with the buyer and the car is never delivered.

Case 2

Unknown individuals advertise scholarships on social media platforms and display an account number where a 'one-off' administration fee must be paid. Unsuspecting members of the public deposit the funds into the said account and all the funds are withdrawn in a West African country. The scholarships do not come to fruition.

3.2 EMERGING TRENDS

3.2.1 Contracting of Loans and Proposals for Large Projects

In the recent past, the Country has been approached by a number of obscure foreign entities mainly through Zambian Nationals, offering to provide finance to the Government for various projects. The FIC, after verification, has determined that some of the sponsors and their Zambian accomplices are criminal elements and are trying to either over price the cost of loans or simply to swindle the Government as the guarantor of these loans.

Other cases involve the fraudulent acquisition of land through unsolicited bids to Government in order to undertake seemingly sound projects when in fact these investors have no capacity to implement the projects. As a result, Zambian

ans may be dislocated from their land to further the interests of persons with fraudulent intentions. The public should be cautioned that some of these criminal elements have already swindled Zambians. Citizens or state institutions may be used as accomplices for these nefarious activities.

3.2.2 Timber Transactions

We noted an increase in the number of currency transaction reports involving timber sales and they were mostly performed by individuals in regions where the prohibited Mukula tree is being harvested. This raised suspicion of Mukula traders declaring their sales as proceeds from other types of timber as opposed to Mukula tree. This was after the enactment of statutory instrument 91 of 2015, which prohibited the harvesting and export of Mukula tree. During 2017, a total of ZMW 4,454,726.00 was reported as timber related currency transactions reports. It was further observed that the deposits in the accounts of individuals involved in the timber trade were done by third parties, mostly of Asian and Zambian origin.

4.0 CASE STUDIES

4.1 Case Study 1: Fraud, Corruption and Tax Evasion

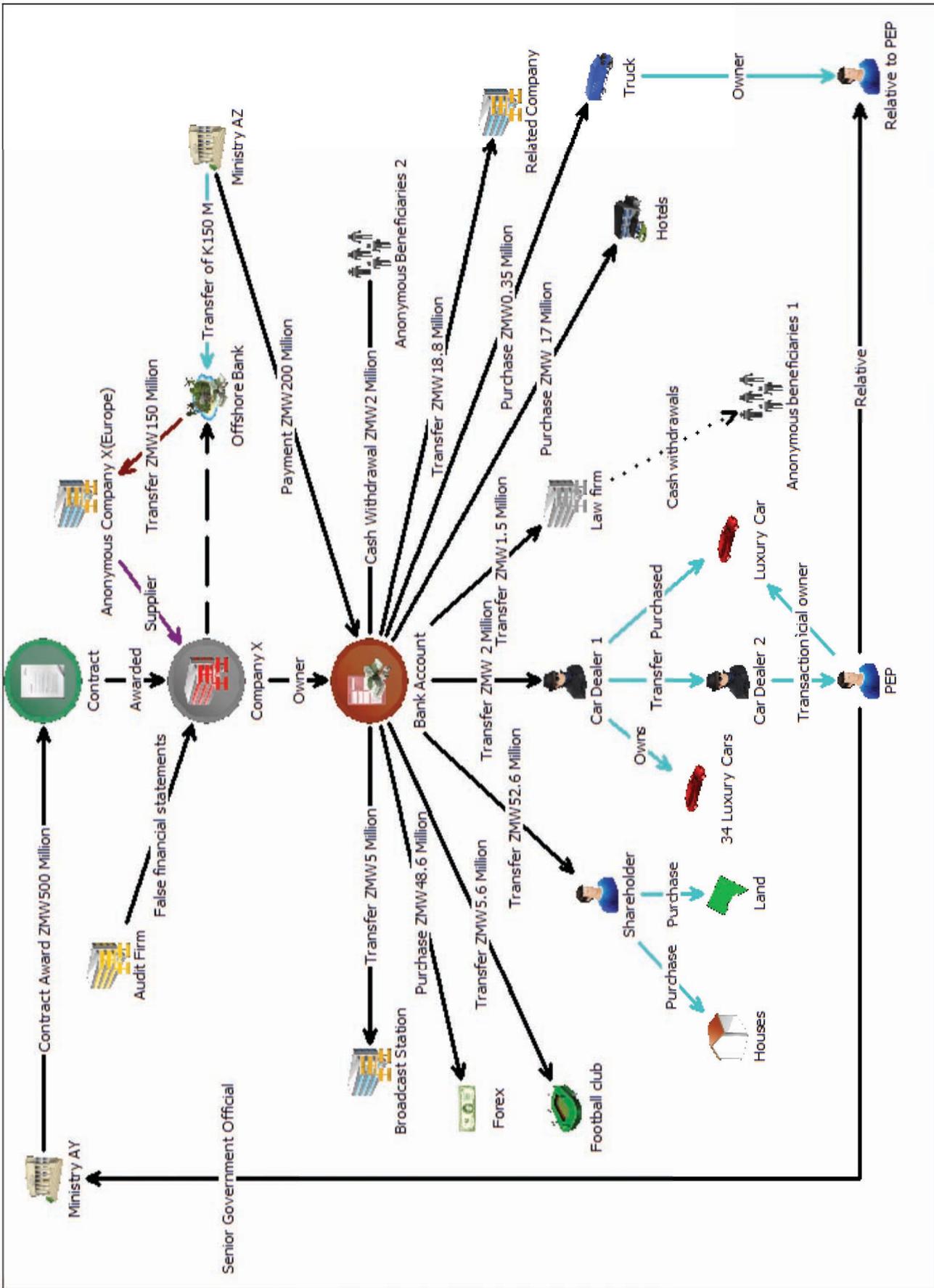
We received a report that **Company X** was awarded a contract to purchase Utility trucks by a Government **Ministry AY**. The Centre had previously disseminated the matter on **Company X** to appropriate competent authorities. Our conclusion in this matter was that **Company X** was a newly incorporated company and had no proven financial capacity and experience to deliver. The major suspicion was that the price at which the utility vehicles were bought was highly inflated.

Findings

- Our analysis revealed that **Company X** tendered suspected forged documents to be awarded the Contract.
- That **Company X** held no past record and their bank account was basically a conduit used to receive funds from other sister companies and later either wire the funds outside Zambia or make huge cash withdrawals.
- **Company X** was the only bidder which met the criteria at the Preliminary stage and proceeded to the next stages of Evaluation. It has since come to our attention through sources that there was an addendum that was only availed to **Company X** in order to obtain the outcome at preliminary stage
- We noted that there was a strong link between **Company X** and a number of PEPs who held strategic offices. In some instance , we noted that vehicles were purchased for the PEPs using an unregistered car dealer
- **No payment** has been noted going to the supplier of the Utility trucks
- We focused on payments for the supply of the Utility Vehicles from the Ministry **AZ**. It was noted that for the period June to August 2017, the Ministry **AZ** paid **Company X** ZMW 200 Million. The payments given to the company were depleted on utilisation within the country through huge cash withdrawals, purchase of properties, transfers to sister companies and Law firms.
- We noted that the cost of the vehicles was 30% of the price that they were purported to cost in the tender.
- We observed possible distortion in the origin of the vehicles as the address was deliberately misleading.

The matter has been forwarded to LEAs for investigations.

Case Study 1: Fraud, Corruption and Tax Evasion chart



4.2 Case Study 2 Corruption, Tax Evasion and Money laundering

We received cases which bordered on suspected corruption, abuse of office and tax evasion regarding the manner in which contracts were awarded by Quasi Government institutions.

Findings

- a) Nearly 50% of the entities that were awarded contracts were not registered for tax purposes while some were non-tax compliant. Being tax compliant is a prerequisite to be awarded a public contract.
- b) Nearly 50% of the cases analysed had no capacity to contract. This included contracts being awarded to companies that had been operational for less than 12 months on the market; unregistered companies; and companies with no financial base to execute the works.
- c) It was also noted that in some instances, contracts were varied and the variations observed were significant. There is therefore need to cap the variations to reduce on fraud and general anti-competitive behaviour.
- d) It was further established that in some instances, single sourcing that did not meet the criteria laid out in the tender was used. This was mainly in relation to works which can be executed by a number of entities on the market. Ultimately, such actions apart from eliminating the benefits of competition encourage corrupt practices.
- e) We noted performance of works that are substandard and abandonment of projects.
- f) We observed that the ownership of some of the entities was opaque. The persons registered at company registry PACRA are not always the beneficial owners. At times owners are Political Exposed Persons (PEPs) and their associates.

Analysis

The fact that entities are awarded contracts without being registered or being tax compliant suggested the existence of corrupt practices on the part of those responsible for the awarding of tenders. Further, it was noted that awarding of contracts to entities with no capacity to perform has resulted in substandard projects and at times abandonment of projects.

Possible Offences: Bribery, corruption Tax evasion and money laundering

Suspects: Public and Private Individuals, Corporation

Industry : Retail, Corporate

Indicators:

- Direct Bidding
- Un registered businesses given contracts
- Non tax complaint companies awarded contracts
- Poor workmanship
- Abandoned works
- Sudden changes in individuals which did not match their net worth
- Customers undertaking complicated transfers without a business rationale
- Abnormal or large cash payments
- Politically Exposed Person
- Usage of DNFBPs

4.3 Case study 3 – Politically Exposed Persons, DNFBPs (Bribery & Corruption, Tax Evasion)

We received a report in which a PEP Mr. **X** had been receiving huge payments from a government ministry in his company account. The report stated that the suspicion emanated from huge payments in excess of USD 2 Million which the politically exposed person (PEP) had received. Further, that the transfers were usually followed by multiple transfers and cash withdrawals.

I. Our inquiry revealed that Mr. **X** had registered interest in five companies. One of the five companies, **ABC** was active. The other companies seemed to exist on paper only. An analysis of company account at one bank, revealed the following:

ABC

Period Reviewed	Entity	Shareholders	Credit turnover
August 2015-April 2016	Company ABC – ZMW Account	Mr. X Wife of Mr. X	ZMW 70 Million
2013-2015	Company ABC - USD Account	Mr. X Wife of Mr. X	USD 6 Million

Company ABC

In the period under review, from August 2015 to April 2016, **Company ABC** received credits amounting to USD 6 Million and ZMW 70 Million in the foreign and kwacha accounts. We noted that all the payments originated from a **Government Ministry**. The withdrawals on the account were predominantly in the form of cash and transfers to law firms. Upon review of the law firms' accounts, it was noted that the funds were mostly drawn in cash and transfers to other law firms.

II. Secondly, it was noted that the same **Government Ministry** awarded a number of contracts to Company ABC to supply equipment in 2014. We verified that there was no equipment imported by **Company ABC**. Further, that companies in which **Mr. X** had interest in, were none compliant for tax purposes. The findings were corroborated with other government agencies.

Within a short period of time of being associated to a political party, **Mr. X** has increased his wealth and subsequently acquired a number of properties.

In the case under review, it was noted that **Company ABC** solely relied on The Government payment to order equipment. Further, it was noted that the same funds paid by the Government were used to start liquidating a loan obtained from a Government Institution. In an effort to disguise the source of funds, our analysis indicated that huge amounts were transferred to Law firms where the funds were later withdrawn in cash. This is a clear scheme of misuse of designated Non-Financial Institutions and Professions (DNFBP).

Possible Offences: Bribery, corruption Tax evasion and money laundering

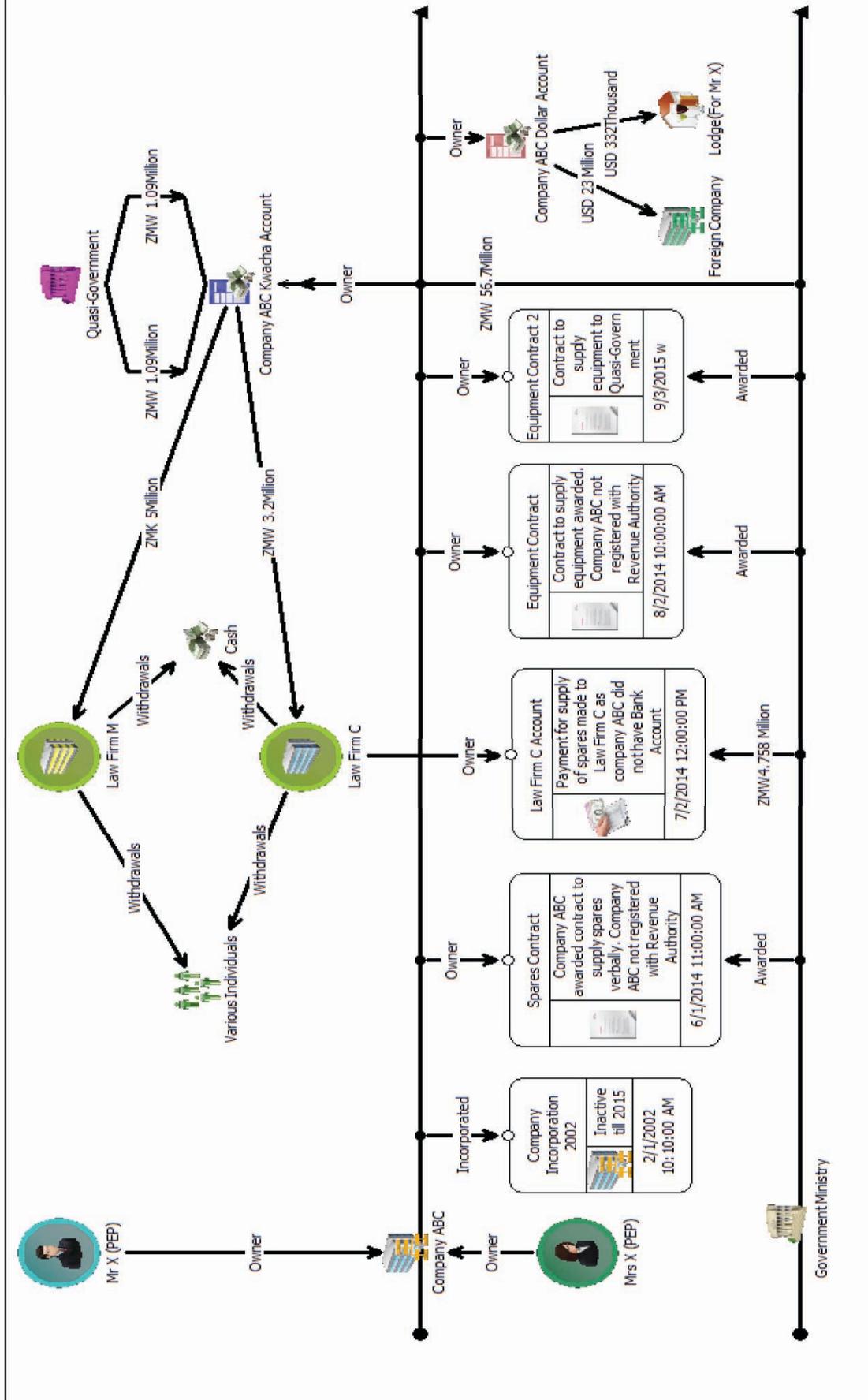
Suspects: public and private individuals, Corporation

Industry : Retail, Corporate

Indicators:

- Account activity inconsistent with customer profile
- Customers undertaking complicated transfers without a business rationale
- A number of contracts from Government when in fact , his companies had no capacity to execute them
- Abnormal or large cash payments
- Politically Exposed Person
- Usage of DNFBPs

Case Study 3: Politically Exposed Persons, DNFBPs chart



5.0 SUSPICIOUS TRANSACTION REPORTS AND SPONTANEOUS DISCLOSURE REPORTS

5.1 NUMBER OF STRs AND SDRs RECEIVED

In 2017, a total of 1664 suspicious transaction and spontaneous disclosure reports were received from various institutions of which 969 were STRs and 695 were SDRs. This represents a 131% increase from the year 2016 in which 719 reports (STRs and SDRs) were received. Awareness programmes and a special exercise that the FIC carried out on quasi-government contracts were responsible for the increase.

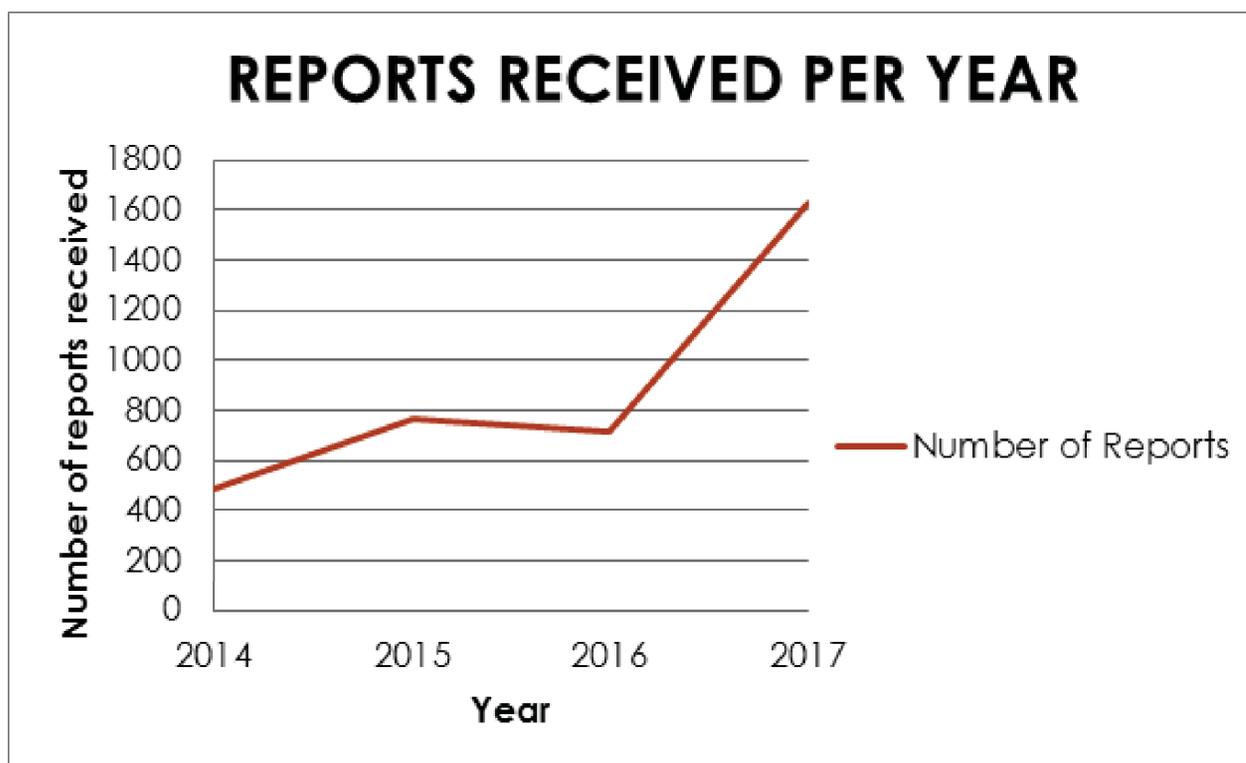
Most of the reports received in 2017 were from the banking sector and this accounted for 92% of the STRs received. Money Value Transfer Service providers (MVTs) submitted 5%, insurance companies 1%, microfinance 1% and audit firms accounted for less than 1% of the STRs submitted.

No reports were received from law firms, pension funds, casinos, real estate agents and other DNFBPs. To this effect, the Centre has commenced inspections to enhance AML /CFT compliance.

The number of reports received over the last four years is shown in table (i) below: Table (i) Number of reports per year

Year	Number of Reports
2014	487
2015	767
2016	719
2017	1,664

Figure (i) Number of reports for the last 4 years



5.1.2 STRs RECEIVED BY MONTH

Table (ii): Volumes and kwacha equivalent Values per month

Month (2017)	Number of STRs reported	Amount (ZMW)
January	107	33,946,550.66
February	88	56,056,423.91
March	76	65,199,464.56
April	93	151,545,825.78
May	134	70,460,864.31
June	99	60,778,966.32
July	39	14,539,041.85
August	54	84,232,010.54
September	51	20,879,333.48
October	74	64,727,949.36
November	89	243,612,809.99
December	65	65,878,330.51
Total	969	931,857,571.27

The table above depicts the volumes and values of STRs received from January to December 2017. The month of May had the largest number of reports received (134) amounting to ZMW 70,460,864.31. With regard to transaction value, the month of November had the highest amount at ZMW 243,612,809.99. The month with the lowest value in 2017 was July with a total value of ZMW 14,539,041.85. The STRs are generally flagged because of the significant usage of cash and unclear sources of funds among others. The total value of suspicious transactions during the year was ZMW 932 million, a decrease of 20% (ZMW 1.119 billion) from the prior year. This could be attributed to the fact that 2016 was an election year and there were colossal sums of money in circulation.

5.1.3 STRs by Transaction Value

There is no threshold for suspicious transaction reports submitted to the FIC. Therefore, STRs can be generated on any amount provided there is suspicion relating to money laundering, terrorist financing, proliferation financing or any financial crime.

5.1.4 STRs by Currency Type

In 2017, the majority of the suspicious transactions reported were denominated in Zambian Kwacha and United States Dollars at 68.55% and 30.79% respectively. The remaining reports were denominated in other currencies at 0.66%. The trend reflects the use of kwacha as a legal tender in Zambia and the proportion of transactions that relate to international trade, which are dollar denominated.

5.1.5 Nature of Suspicious Transaction Reports (STRs) received

During the year, the Centre received various types of Suspicious Transaction Reports (STRs). The majority of STRs referred to the FIC were on the basis of account activity being inconsistent with the customer profiles and large or unusual cash deposits. This continues to reflect the disproportionate use of cash in commerce, particularly in sectors reasonably expected to use electronic means of payment.

The nature of reports received by the FIC in 2017 is illustrated in table (iii).

Table (iii): Nature of reports received

Reason for Suspicion	Cases reported	Amount ZMW	Percentage
Activity inconsistent with customer profile	156	107,858,820.42	16.10%
Avoiding reporting obligations	16	2,606,616.05	1.65%
Fraud/ATM Fraud/Credit Card fraud/Internet fraud	47	26,419,168.54	4.85%
Irregular or unusual International banking activity	33	43,357,260.90	3.41%
Large or unusual cash deposit	337	181,534,059.93	34.78%
Large or unusual cash withdrawals	10	2,904,130.00	1.03%
Large or unusual inward remittance	52	222,271,839.32	5.37%
Large or unusual outward remittance	68	221,069,367.08	7.02%
Many third parties making deposits	8	1,964,775.00	0.83%
Person – Suspicious Behaviour	185	89,376,336.78	19.09%
Sudden unexpected activity on previous dormant/inactive	5	1,698,823.00	0.52%
Unusual business practices	16	20,393,521.19	1.65%
Unusually large foreign currency transaction	17	10,183,319.90	1.75%
Watch listed individual/organization	19	219,533.16	1.96%
Totals	969	931,857,571.27	100.00%

5.1.6 Nationality of entities on which STRs were filed

Of the STRs received in 2017, 64% were on Zambian nationals and 29% on Asian nationals. The remaining 7% were from various nationalities.

5.2 SPONTANEOUS DISCLOSURE REPORTS (SDRs)

In 2017, the number of SDRs received was 695. It was noted that most of the Spontaneous Disclosure Reports (SDRs) received bordered on suspected corruption and tax evasion.

It was observed that the transactions with the highest values were disclosure reports on suspected corruption at over ZMW 6.3 billion. The second was on suspected tax evasion with over ZMW 2 billion. Most of the reports were on quasi-government contracts which constituted 96% of reports received. Table (iv) below illustrates the suspicions on which SDRs were reported.

Table (iv): Reason for suspicion

Reason for Suspicion	Cases reported	Percentage (%)
Tax Evasion/ Corruption	668	96.1%
Fraud/ATM Fraud/Credit Card Fraud/Internet Fraud/Cheque Fraud	27	3.9%

6.0 CURRENCY TRANSACTION REPORTS (CTRs)

The submission of Currency Transaction Reports(CTRs) for both corporates and individuals by reporting entities came into effect in January 2017 following the enactment of Statutory Instrument number 52 (SI 52) in 2016. According to the SI, a reporting entity is required to submit a report not later than three working days after the transaction for an amount equal to or above the kwacha equivalent of ten thousand United States dollars (USD 10,000).

6.1 Number of CTRs received

During the period January to December 2017, the FIC received a total of 73,269 CTRs (62,303 corporates and 10, 966 individuals) from various reporting entities. The highest number of transactions was during the festive season from October to December 2017. The mean value of transactions received per currency is depicted in table v.

Table (v): Corporate CTRs by currency (Jan - Dec 2017)

Currency	Number of transactions	Value by currency	Mean
ZMW	57,703	10,697,263,839.48	253,674.02
USD	4563	460,003,639.08	133,895.30
CNY	12	984,848.38	82,070.70
EURO	9	1,158,669.88	128,741.10
GBP	7	1,099,127.03	157,018.15
ZAR	9	973,904.85	108,211.65

Table (vi) : Corporate CTRs by activity type (Jan - Dec 2017)

Activity	Value (ZMW)	Value (USD)	Number of Transactions
Withdrawals	2,513,920,818.14	36,357,430.49	13,672
Cash Deposits	6,393,415,840.63	209,576,748.55	34,354
Unclassified	1,789,927,180.713	214,069,460.04	14,240
Totals	10,697,263,839.48	460,003,639.08	62,266

It was observed that 14,240 corporate CTRs (table vi) and 260 individual CTRs (table vi) were unclassified. These were transactions without narrations on the activity type. It was therefore not established whether these were cash deposits or cash withdrawals. It has been observed that some reporting entities were capturing wrong information to enable them submit reports. Further, the Centre has detected non-submission of CTRs that relate to bulk cash movement for bank customers.

It is an offence not to report any of the currency transactions or to report wrong or misleading information. Accountable entities are advised to ensure all transactions are reported. To this effect, some entities were sanctioned for non-submission of CTRs and for submitting CTRs with inaccurate information.

There is a correlation between businesses transacting in cash and the incidence of tax evasion. This is due to the unclear audit trail that authorities would utilize to understand the nature of transactions. We observed that 17% and 39% of the cash deposits in USD and ZMW are withdrawn as cash respectively. The bulk of the balances (cash deposits) are externalized to other jurisdictions for trade or investment or other undisclosed reasons.

Table (vii). Individual CTRs by value

Currency	Number of Transactions	Values	Mean
ZMW	9,729	1,661,521,240	170,780.27
USD	1,224	123,440,185	100,849.82
EUR	2	262,375	131,187.50
GBP	4	426,195	106,548.75
ZAR	7	756,135	108,019.29

Table viii: Individual CTRs by activity (Jan – Dec 2017)

Activity	Value (ZMW)	Value (USD)	Number of Transactions
Withdrawals	934,976,469.68	9,837,158.42	4,733
Cash Deposits	933,916,665.05	123,698,673.98	5,973
Unclassified	33,935,458.97	9,239,581.98	260
Totals	1,902,828,593.70	142,775,414.38	10,966

With regard to CTRs on individuals, we observed a trend of businesses depositing their proceeds into personal bank accounts. Further, 100% of the cash deposits are withdrawn as cash withdrawals for kwacha transactions, while only 8% of the USD deposits are withdrawn as cash. The dollar transaction pattern also points to potential externalization from personal accounts.

6.2 CTRs by Location

Figure (ii): Corporate CTRs received by location in 2017

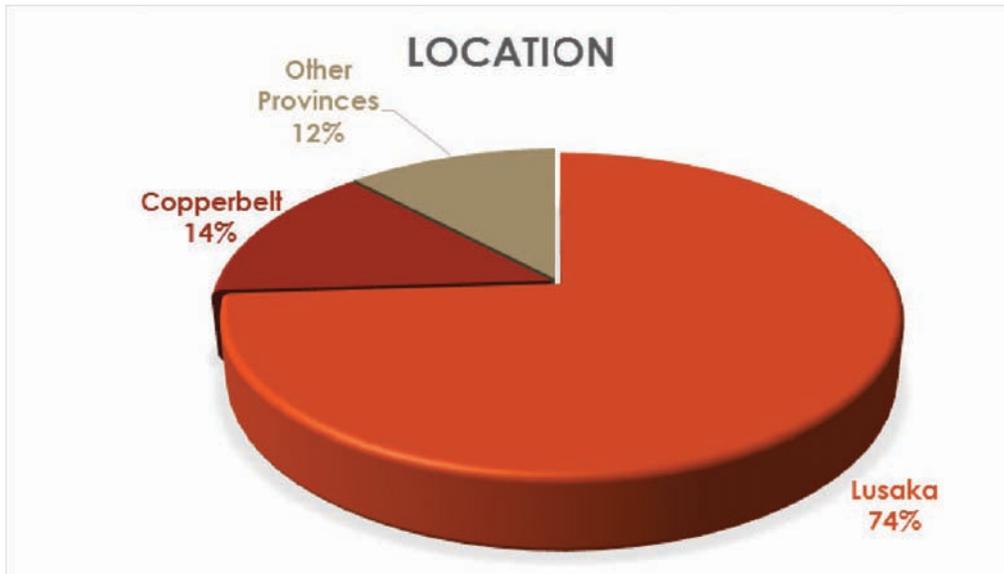


Table ix: Corporate CTRs received by location in 2017

Province	Number of Transactions	Percentage (%)
Lusaka	46,223	74%
Copperbelt	8,728	14%
Central	1,252	2%
North Western	202	0%
Northern	583	1%
Muchinga	1,020	2%
Luapula	393	1%
Eastern	805	1%
Western	255	0%
Southern	2,842	5%
Total	62,303	100

On both corporate and individual CTRs, it was noted that Lusaka and Copperbelt provinces recorded the highest return. This trend is indicative of the economic activities in the two provinces. However, North Western Province despite being an emerging economic hub in the country, did not report a significant number of CTRs. The trend is indicative of the disparity in economic activity. It may also relate to the level of banking penetration in each of the provinces and allude to the fact that minerals are not sold in North Western Province. The exception however is the border towns of rural provinces that tend to report higher than average activity.

Figure (iii): Individual CTRs received by location in 2017

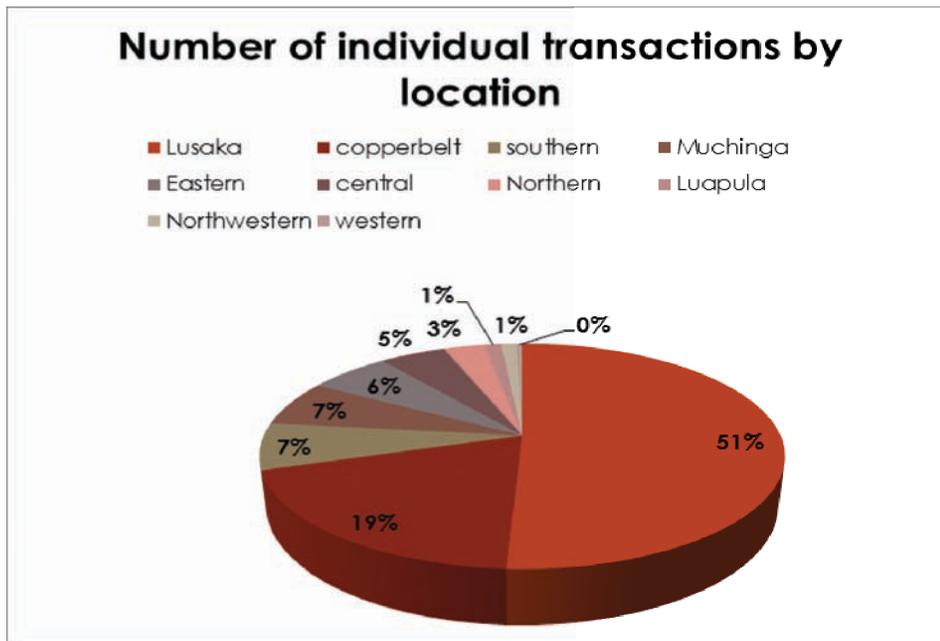


Table (x): Individual CTRs received by location in 2017

Province	No. of Transactions	Percentage
Lusaka	5,593	51%
Copperbelt	2,083	19%
Central	548	5%
North Western	110	1%
Northern	329	3%
Muchinga	768	7%
Luapula	109	1%
Eastern	658	6%
Western	44	0%
Southern	724	7%
Total	10,966	100%

On individual CTRs, it was noted that Muchinga province was third in terms of transaction values. And from the analysis of STRs, it was noted that Zambians based in Nakonde town are used by Tanzanian Nationals to conduct business activities. This is a continuing trend which was noted in the 2016 report.

6.3 CTRs by nationality

The analysis of Corporate CTRs revealed that the majority of the transactions were performed by Zambian Nationals followed by Asian and other Nationals. This is consistent with the analysis of STRs in which most Zambian Nationals are operating as agents of foreign Nationals and corporates to conduct business.

Table (xi): Nationality of individuals transaction on Corporate accounts

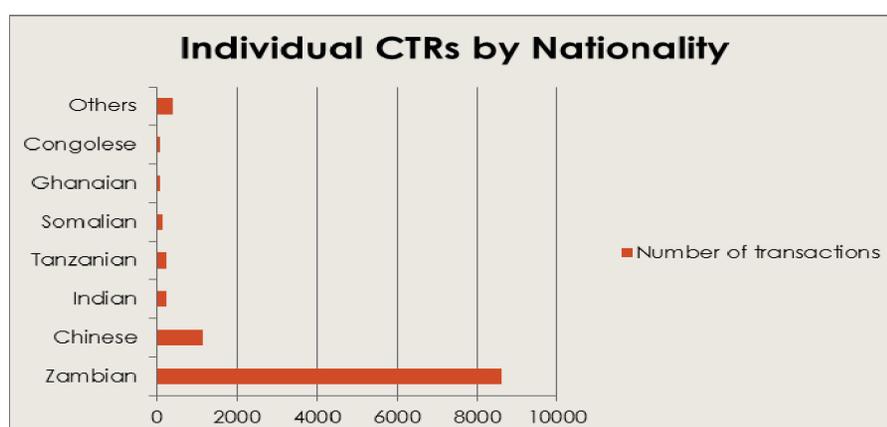
Country	Number of Transactions
Zambia	42,916
China	3,582
India	1,339
Somalia	404
Tanzania	313
Kenya	184
Zimbabwe	119
Lebanon	108
Congo	51
South Africa	94
Other	13,193
Total	62,303

6.4 Individual CTRs

For Individual CTRs received in 2017, Zambian nationals performed the majority of transactions followed by Chinese, Indians and nationals of other African countries. This is illustrated in **table xi** below;

Table xii: CTRs by nationality

Nationality	Number of transactions
Zambia	8,613
China	1,152
India	249
Tanzania	240
Somalia	155
Ghana	84
Congo	69
Others	404
Total	10,966

Figure (iv): Individual CTRs by Nationality

7.0 CROSS BORDER DECLARATION REPORTS

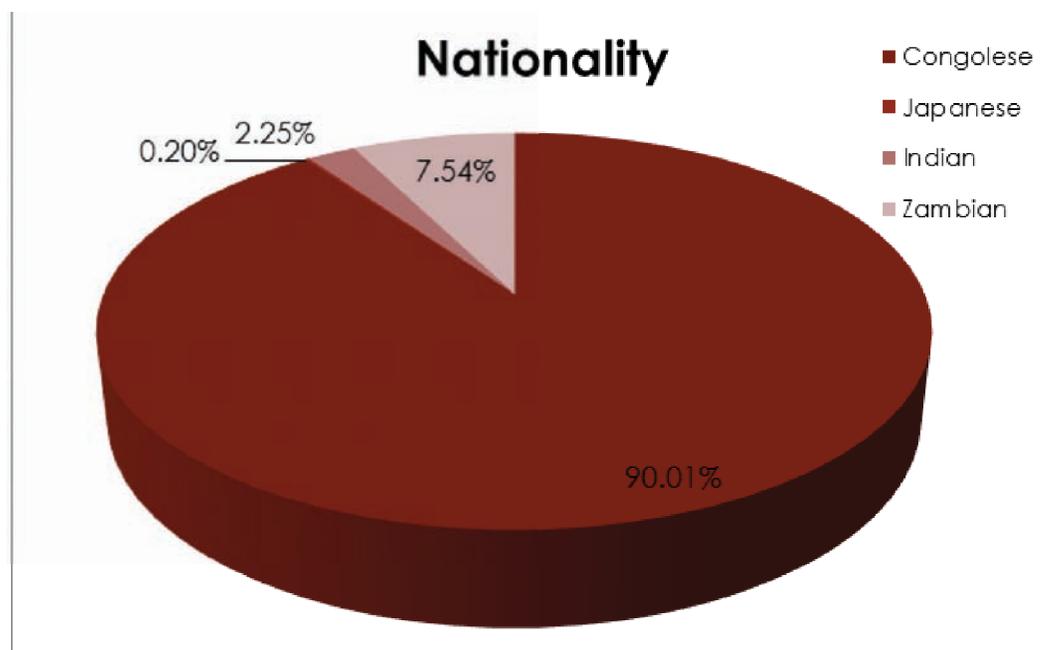
The Cross border declaration reports received and analysed between July and December 2017 were from Kasumbalesa border in Chililabombwe (1018 reports) and Mwami border in Chipata (3 reports). A total of 1021 reports were received and valued at USD 57,149,183. It was observed that the reports involved Congolese Nationals who represented 90% of the total reports received. The remaining 10% involved Zambians, Indians, Japanese and other Nationals. Table XIV illustrates the number of nationalities involved in the period under review.

The concentration of reports from two border points may suggest non-declaration at other entry/exit points. The FIC shall engage authorities on the non-declarations at other borders.

Table xiii: Nationalities involved

Nationality	Number of Declarations
Congolese	919
Zambian	77
Japanese	2
Indian	23
Total	1,021

Figure v. Graph by nationality



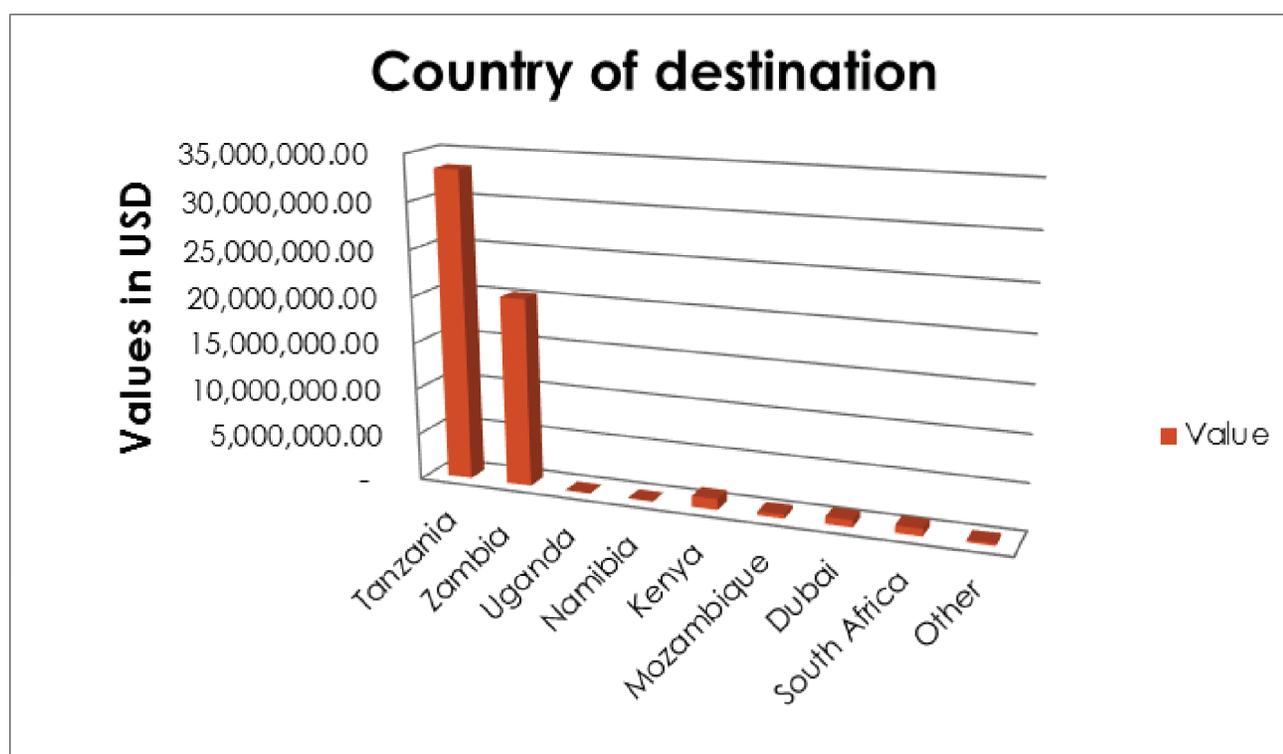
7.1 Destination of individuals

The final destination of most of the individuals was Tanzania followed by Zambia. It was established that most of the individuals involved were in importation of clothes from Tanzania and food stuffs from Zambia. The table below shows the amounts involved and the final destination of individuals. See table below

Table (xv): Country of destination

Country of Destination	Value (USD)	Percentage (%)
Tanzania	33,366,097	58%
Zambia	20,297,996	35.5%
Uganda	46,000	0.1%
Namibia	33,400	0.1%
Kenya	1,160,270	2.0%
Mozambique	433,800	0.8%
Dubai	768,920	1.3%
South Africa	794,500	1.4%
Other	248,200	0.4%
Total	57,149,183	100%

Figure (vi): Country of destination



It was noted that large amounts were declared. On average, over USD 55,000 was declared per individual. In one instance, an individual declared USD 500,000.00 which was deemed unusual. It is expected that one would prefer a safer and secure way to transport cash. A trend has been noted in that most Congolese nationals use cash to transact. This could be attributed to the fact that most of the Congolese Nationals believe in using cash and not the banking facilities. The level of informality of the Congolese economy is another factor in the high incidence of cash movement.

7.2 Challenges in the use of cash- Cross border declaration reports

The use of cash brings with it challenges. Some of the currency being moved could be proceeds of smuggled commodities from Zambia (due to the porous borders) and sold in Congo. Other problems would include tax evasion, corruption and potential terrorist financing.

8.0 SANCTIONS ADMINISTERED DURING THE YEAR

In 2017 the Centre sanctioned five (5) reporting entities for non-compliance as the table xvii below shows.

Table (xvii): Sanctions

Number Of Reporting Entity	Type Of Sanction
4	Non-compliance with KYC requirements
1	Non-compliance to prescribed threshold reporting

9.0 RECOMMENDATIONS

9.1.1 Procurement Corruption

Zambia needs to improve the level to which our laws are implemented. The country has a reasonable legal framework on procurement which, if implemented, would see a reduction in procurement corruption. Implementation of the laws would result in convictions for offenders, which would act as deterrence. Further enforcement of laws should focus on individuals with significant authority as they are the ones in most cases that can do the most harm.

In addition, the evaluation procedure should add significant weighing towards value for money rather than just compliance, which may defeat the spirit of competitive bidding.

9.1.2 Limiting the number of Casinos

It was noted that there are a lot of casinos and sports betting facilities in Zambia. Currently, this sector is monitored by the Licensing Committee under the Ministry of Tourism and Arts. However, most of these casinos and sports betting facilities are operating illegally.

With the current legislation, it is difficult for the casino owners to conduct even basic KYC on the patronage. There is therefore a need to strengthen legislation to include compliance with AML/CFT regulations.

9.1.3 Use of Cash in Commerce

A Significant number of transactions are settled in cash in Zambia. This is supported by the various reports received and analysed. From the Currency Transaction Reports, it was noted that individuals conducted significant business transactions on personal bank accounts. Further, from the cross border declaration reports, it was noted that a number of individuals move with large amounts of cash.

Majority of the STRs reported were based on large or unusual cash deposits at thirty five percent (35%), suspicious behavior at nineteen percent (19%) and activity inconsistent with customer profile at sixteen percent (16%). We noted that high usage of cash brings a number of problems to a country, which include income leakages, tax evasion, corruption and bulk cash smuggling. The island of Mauritius provides a good example on the regulation of the use of cash in commerce. The maximum amount for transacting in cash is 500,000MUR.

Given the aforementioned, the following measures with regard to the use of cash are proposed:

- i. Legislation should be reviewed to criminalise the holding of cash above specified limits by individuals.
- ii. Zambia should consider a limit beyond which you cannot transact in cash. This is already practiced in some countries.
- iii. The country should consider adopting technology that enables and integrates identity documentation with e-payment systems.
- iv. Government should consider a differentiated tax regime, where cash based payments attract higher taxes. This would be the "Cash tax".
- v. All Zambian residents, as defined by the Income Tax Act, should complete an annual income tax return.

9.1.4 Taxation

The majority of cases disseminated to Law Enforcement Agencies in 2016 were on the grounds of tax evasion. Similarly in 2017, most cases were on the same grounds. Therefore, the measures suggested in the 2016 edition which are listed below could be considered;

- i. The Development of a General Anti-Avoidance Rule (GAAR) to deter abusive tax avoidance by international corporations and foreign work permit holders
- ii. Compliance with the arms-length principle which is core in the analysis of intercompany transactions and must be defined precisely in the Zambian legislation. It will entail transparency on the part of multinationals' internal rules and policies.
- iii. The review of current and prospective tax treaties and bringing current treaties in line with OECD guidelines



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