MONEY LAUNDERING AND TERRORIST FINANCING

TREND ANALYSIS

REPORT

JULY – DECEMBER 2023

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LIST OF ACRONYMS

AML/CFT/CFP	Anti-Money Laundering/Counter Financing of Terrorism/ Counter Financing of Proliferation
BURS	Botswana Unified Revenue Service
EDD	Enhanced Due Diligence
EFT	Electronic Funds Transfer
FIA	Financial Intelligence Agency, also referred as the “Agency”
FI Act	Financial Intelligence Act, 2022
FIs	Financial Institutions
IFT	International Funds Transfer
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
ML/TF/PF	Money-Laundering/ Financing of Terrorism/ Financing of Proliferation
MVTS	Money Value Transfer Services
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
TBML	Trade Based Money Laundering

1. INTRODUCTION

This Trend Report has been put together by the Financial Intelligence Agency, in alignment with its core mandate of enlightening stakeholders and the wider public regarding evolving trends in money laundering, terrorist financing and proliferation financing. It stands as a testament to the Agency's commitment to fostering awareness and understanding in these critical areas. The data presented herein encompasses the period spanning from July to December 2023, providing valuable insights into recent developments and challenges in combating financial crimes.

1.1 Background

The Financial Intelligence Agency Act 2022 mandates the Financial Intelligence Agency as a central entity responsible for requesting, receiving, analysing and disseminating, spontaneously or when requested, to an investigatory authority, supervisory authority, comparable body or competent authority, disclosures of financial information. The Agency produces ML/TF/PF trend reports and assesses the efficacy of existing AML/CFT/CPF frameworks to detect any deficiencies or gaps therein. Secondly, the reports informs the reporting entities and the general public to proactively anticipate and respond to emerging threats, thereby enhancing their capacity to stay ahead of the curve in the fight against financial crime. Thirdly, the reports are intended to facilitate information-sharing and collaboration among stakeholders, fostering a collective approach to safeguarding the integrity of the financial system.

1.2 Objectives

The primary objectives of this trend report are as follows:

i. Identify patterns, anomalies or trends that indicate potential money laundering, terrorism financing or other illicit financial activities.
ii. Highlight methods used by suspected launders
iii. Identify high risk customers, products or services

1.3 Methodology

The trend analysis followed the following steps to arrive at the findings:

Data Collection: Data was collected from various internal sources including the GoAML System and other Agency records.

Data Screening: Data collected was carefully reviewed and screened to ensure its relevance and reliability for analysis.

Trend Identification: Through systematic analysis, trends and emerging patterns related to money laundering, terrorist financing, and related predicate offenses were identified.

Validation: To validate the findings and enhance credibility, results were referenced with data points and trends across multiple sources to ensure consistency and accuracy in the analysis.

1.4 Scope

The scope of this trend analysis encompasses a comprehensive examination of domestic and regional trends related to money laundering, terrorist financing and related predicate offenses. These includes:

i. Identification of new and evolving methodologies utilised by money launderers and terrorist financiers
ii. Examination of industry best practices and regulatory developments in AML/CFT/CFP compliance.

The trend analysis covers the period from July to December, 2023.

1.5 Data sources

The ML/TF/PF trend analysis drew from a diverse array of data sources to ensure comprehensiveness and reliability. These included:

i. GoAML System – was used as main source of data;
ii. Academic Research - review of academic literature, research papers, and studies pertaining to AML/CFT/CPF trends and methodologies;
iii. Industry Insights - engagement with industry stakeholders, including financial institutions and other AML/CFT/CPF stakeholders in the country to gather insights on emerging risks and best practices.

2. SUSPICIOUS TRANSACTION REPORTS

Section 38 of the FI Act requires reporting entities to monitor transactions and report any that appear suspicious. A suspicious transaction is one that gives rise to a reasonable suspicion that it may involve the commission of a financial offense. A suspicious transaction report can be filed by a specified party, or a concerned citizen to the Agency if they have reasonable grounds to believe that a transaction is related to criminal activity.

Table 1: STRs by value between July – December 2022 and

July – December 2023

	July – December 2022		**July – December 2023**	
Sector	**No. of Reports**	**Value**	**No. of Reports**	**Value**
Banking	197	1,624,322,632.00	312	135,383,148.03
Accountants	1	4,400,000.00	1	45,000.00
Credit Unions	1	1,550,000.00	1	75,000.00
Money Value or Transfer Services	2	45,000.00	6	58,520.00
Virtual Asset Service Providers	-	-	3	797,970.00
Bureaux de change	15	66,158.00	29	100,402.00
Casinos	-	-	1	10,000.00
Asset Management	-	-	2	12,221.07
Car Dealership	3	1,921,500.00	8	2,824,953.98
Micro Lenders	2	10,000.00	3	245,000.00
Insurance Companies	-	-	1	100,000.00
Medical Aid	-	-	1	36,714.00
Grand Total	**221**	**1,632,315,290.00**	**368**	**139,688,929.08**

Table 1 shows the number and value of STRs filed between July to December 2022 and July to December 2023. The Table indicates that the Agency recorded three hundred and sixty eight (368) reports in 2023 compared to two hundred and twenty one (221) reports in the previous year. However, the value of transactions recorded in 2023 was lower at P139.7 thousand compared to P1.6 billion in 2022. This represents a decrease of 91.4%. The high value of STRs in 2022 is attributed to a spike in the number of incidents reported relating to illegal deposit taking. This value represent the amount of funds solicited from the public with a promise to invest in crypto currency markets.

Table 2: STRs by value between January to June 2023 and

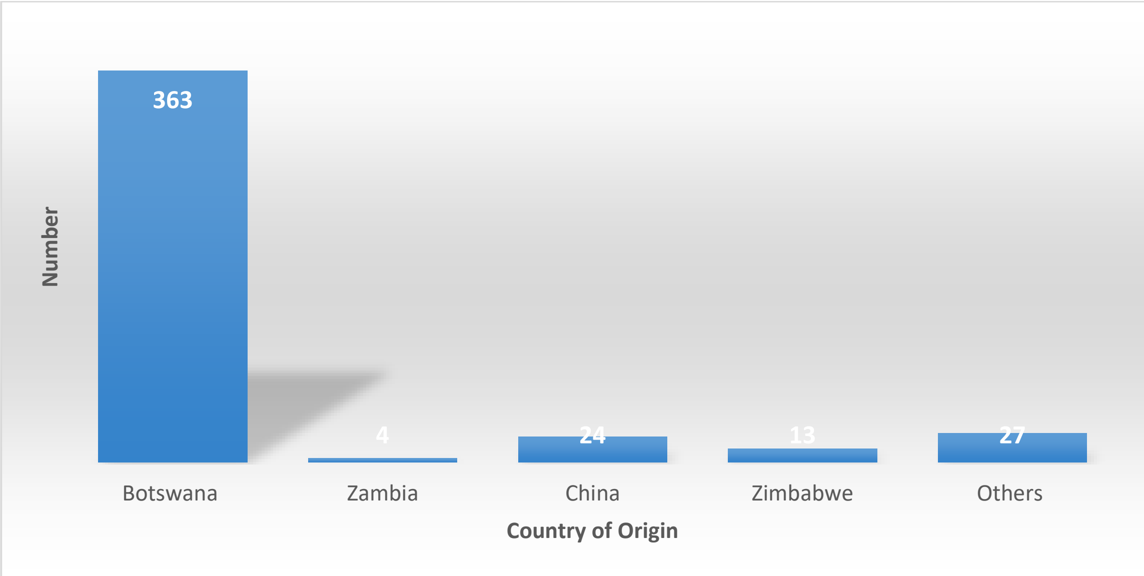
July – December 2023

2023				
	January to June		**July to December**	
Sector	**No. of Reports**	**Value**	**No. of Reports**	**Value**
Banking	325	282,876,107.68	312	135,383,148.03
Auditors	2	274,895,479.00	-	-
Accountants	1	1,160,754.00	1	45,000.00
Credit Unions	2	1,017,000.00	1	75,000.00
Money Value or Transfer Services	44	654,320.48	6	58,520.00
Virtual Asset Service Providers	2	486,054.25	3	797,970.00
Bureaux de Change	18	171,576.00	29	100,402.00
Casinos	4	87,150.00	1	10,000.00
Asset Management	1	25,000.00	2	12,221.07
Attorneys	1	2,246.00		-
Car Dealership	-	-	8	2,824,953.98
Micro Lenders	-	-	3	245,000.00
Insurance Companies	-	-	1	100,000.00
Medical Aid	-	-	1	36,714.00
Grand Total	**400**	**561,375,687.41**	**368**	**139,688,929.08**

Table 2 above compares the number and value of STRs between the first and second half of 2023. The Table indicates that from July to December 2023, the Agency received a total of three hundred and sixty eight (368) suspicious transaction reports compared to four hundred (400) cases received during the first half of the year. This represents a decrease of 0.08%. The value of transactions recorded during the last half of the year was P139.7 million compared to P561.4 million recorded in the first half.

From July to December 2023, the banking sector accounted for the highest number of STRs of all categories of Reporting Entities followed by Bureau de change and car dealership sectors, respectively. First National Bank, Standard Chartered Bank, and ABSA Botswana have filed a higher number of reports compared to other banks, likely due to their larger customer base.

Figure 1: Nationality of suspected perpetrators



The Agency observed that suspected perpetrators of financial crime originate from various nationalities for the period under review. Three hundred and sixty-three (363) the suspected offenders were Batswana while others included different nationalities such as China, Zimbabwe and Zambia.

The analysis further revealed that suspected perpetrators of predicate offences were predominantly male. Female perpetrators were common on small-scale operations such as ponzi schemes. The age of the perpetrators ranged from 19 to 71 years.

3. OTHER STATUTORY REPORTS

Other than STRs, Part VI of the FI Act mandates the Agency to receive other regulatory reports including; electronic fund transfers, cash transactions, international fund transfers, cross-border declaration reports among others. These reports serve as critical sources of information for tactical and strategic analysis.

3.1 Electronic Funds Transfers (EFTs)

Section 42 of the FI Act compels the reporting entities and specified parties to file with the Agency transactions involving the transfer of funds equal to or in excess of P10,000.00 electronically within Botswana.

Figure 2: Number of EFT reports between 2022 and 2023

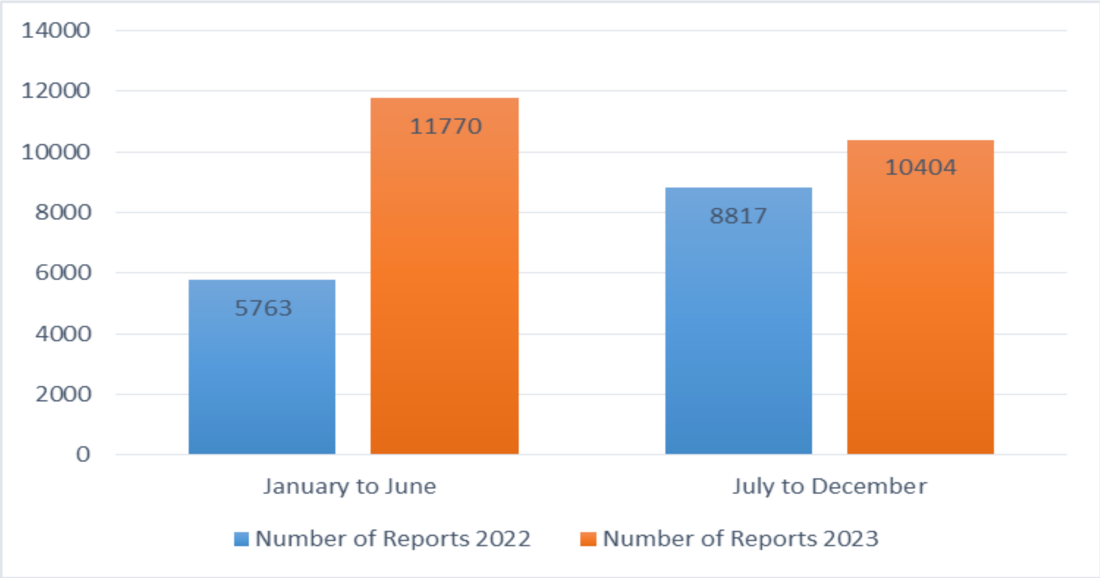


Figure 2 illustrates a noticeable decrease in the number of EFT reports during the second half of 2023 when compared to the first half of the same year. This decline may be attributed to a shift towards increased cash usage, particularly in the informal sector for transaction settlements.

3.2 Cash Transaction Reports (CTRs)

Section 39 of the FI Act obligates financial institutions and DNFBPs to file reports on transactions of P10, 000 and above or an equivalent amount in foreign currency to the Agency.

Figure 3: Cash Transaction Reports between 2022 and 2023

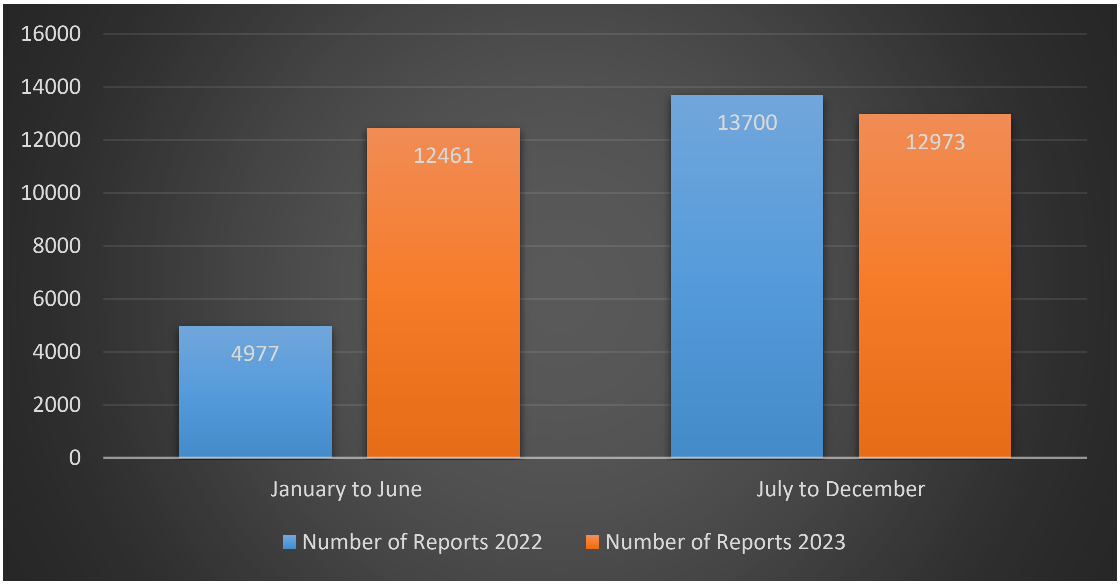


Figure 3 indicates a slight decrease in cash transaction reports during the latter half of the year compared to the first half.

3.3 Sources of Botswana's International Funds Transfers

IFT reports capture cross border transactions conducted by means of wire transfers of an amount equal to or in excess of P10,000.00. IFT reports are meant to monitor international money movements and to detect and prevent financial crimes such as money laundering and terrorist financing.

Figure 4: Top 5 sources of IFTs

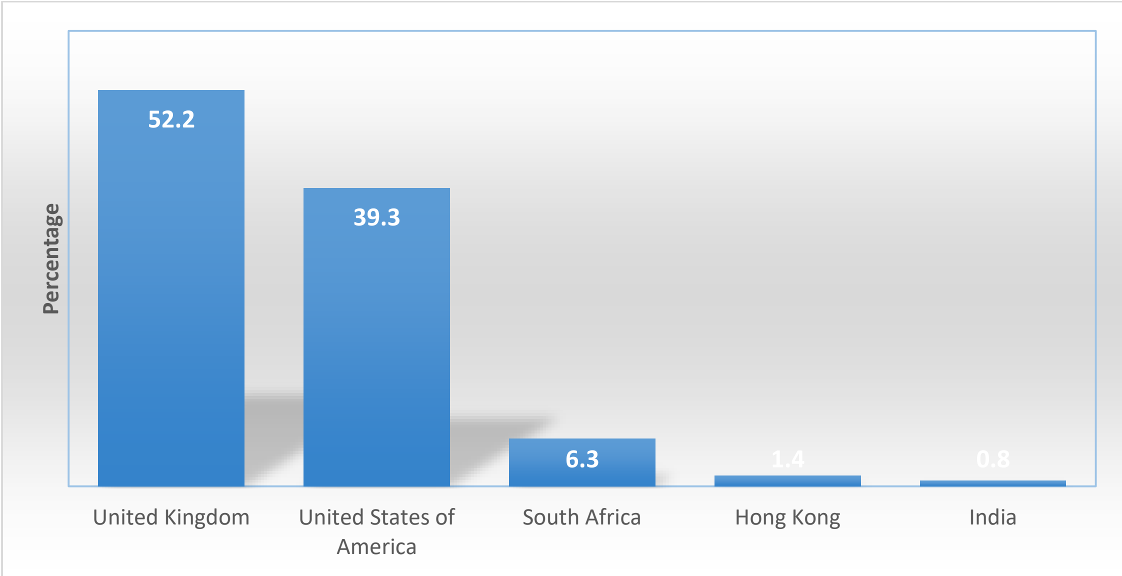


Figure 4 above shows the sources for the country's IFTs in percentages. The Table indicates that the United Kingdom and the USA are the primary source countries for Botswana's IFTs. These revenues are presumably linked to Botswana's mining industry, highlighting the significant interests that both countries have in Botswana's mining sector.

3.4 Top 5 destinations for Botswana's International Fund Transfers

Figure 5: Top 5 destinations of IFTS

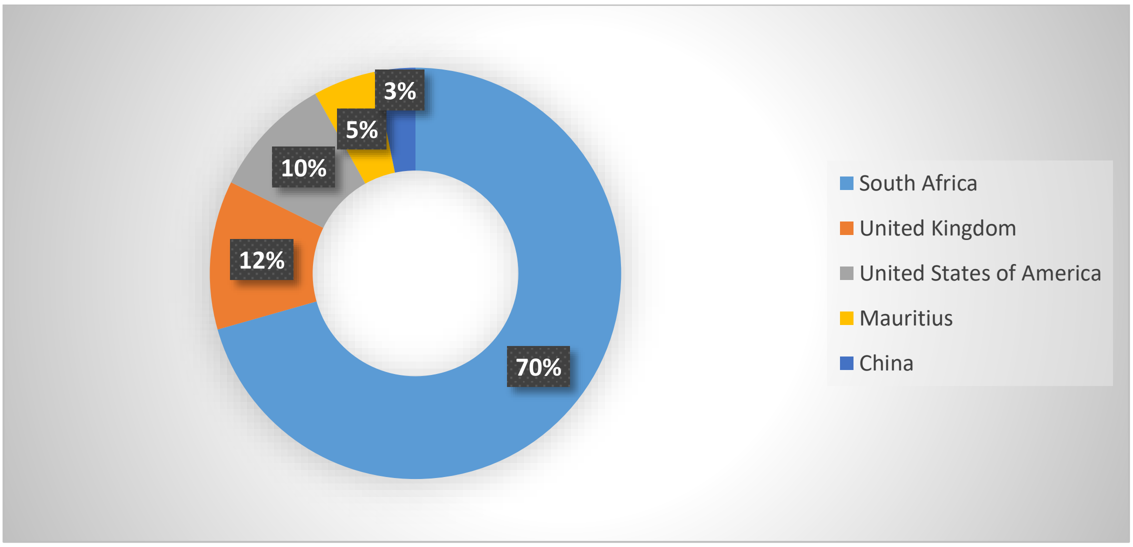


Figure 5 indicates the destinations for Botswana's IFTs, with South Africa being the primary destination. This is primarily because Botswana imports most of its commodities from South Africa.

4. TRENDS ANALYSIS OF SUSPECTED OFFENSES

Figure 6: Top 5 suspected predicate offences

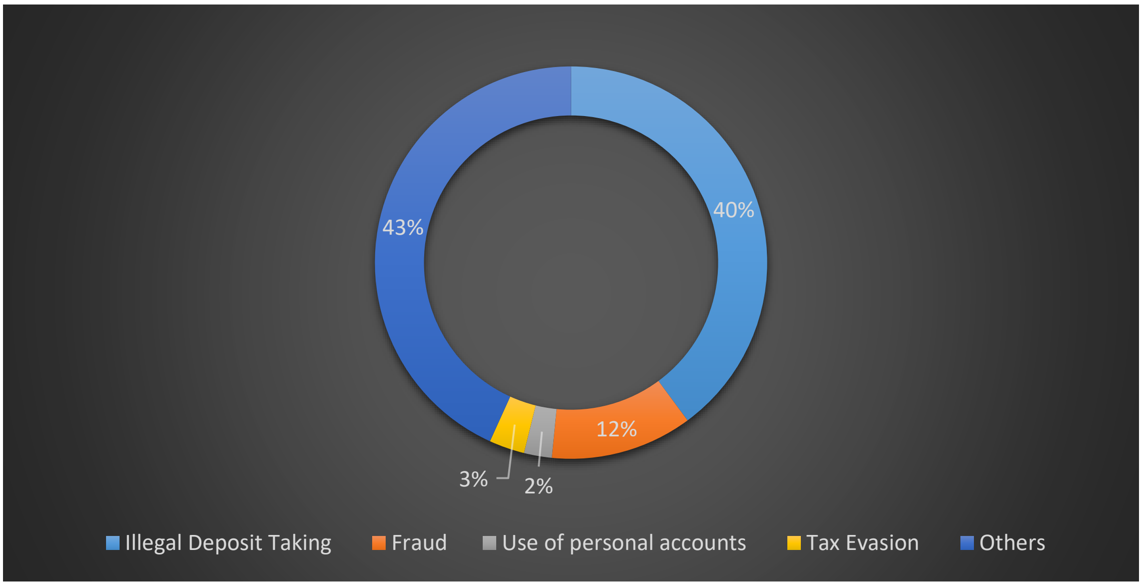
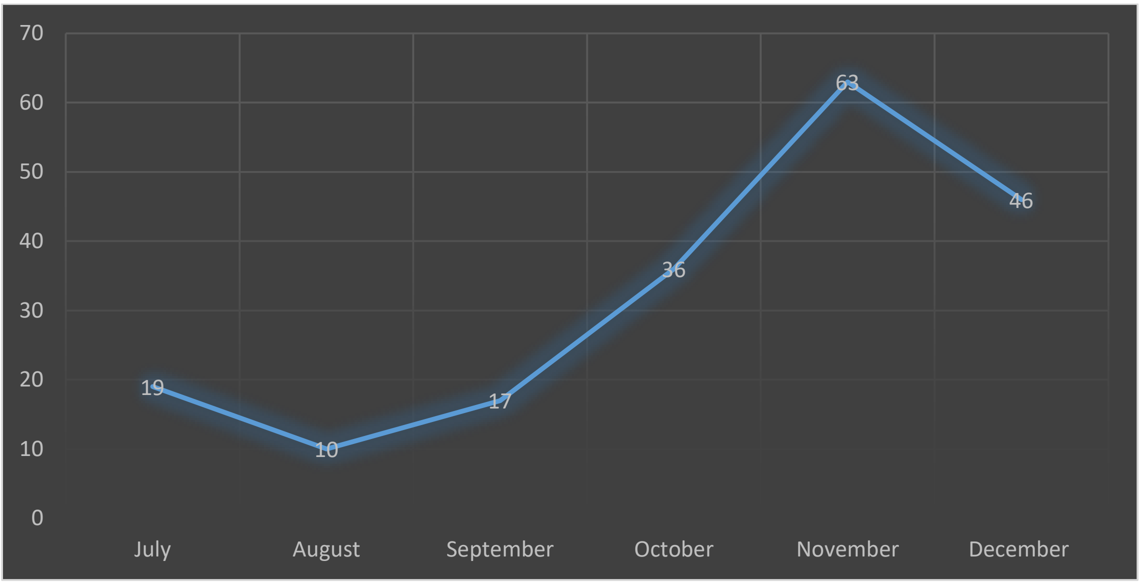


Figure 6 illustrates the most frequently observed ML/TF/PF trends during the review period. The most reported underlying predicate offenses were illegal deposit-taking (40%), followed by fraud (12%) and tax evasion (6%). Other offenses, such as the externalization of funds, deposits not aligned with known Know Your Customer (KYC) information, transactions conducted on behalf of a third party, and several other suspicious activities, accounted for 40%.

4.1 Illegal deposit taking

Illegal deposit-taking refers to the unauthorized collection of deposits from the public without proper regulatory approval or adherence to established financial regulations. The Agency has observed a trend where certain individuals or entities collect funds from the public with the pretext to invest these funds in virtual assets/ crypto currencies. However, in most cases, these promises turn out to be deceptive, leading to financial losses for unsuspecting depositors. Illegal deposit-taking poses significant risks to individuals and the financial system.

Figure 7: Trend analysis of illegal deposit taking in Botswana



The trend above shows a sudden spike of illegal deposit taking reports between the month of August and November, 2023. It is observed that perpetrators enticed many individuals in to illegal deposit taking schemes with the promise of high returns. Many perpetrators of illegal deposit-taking schemes have prior involvement in financial crimes or other fraudulent activities, exploiting their knowledge and experience in deceptive practices.

Obtaining funds from the public without a banking license is an offence in Botswana. This is in contravention with Section 3 (1) of the Banking Act 1995, which posits that **"A person shall not transacts banking business or engage in deposit taking activities without a valid license issued by the Central Bank".**

Section 3 (2) of the Banking Act 1995 prescribe that "**Any person who transacts banking business or engages in deposit taking activities without a license commits an offence and is liable to a fine not exceeding P1 000 000 or an imprisonment term not exceeding 5 years or to both".**

Identifying indicators of illegal deposit-taking is crucial for individuals, financial institutions, and regulatory authorities to detect and prevent fraudulent activities. Here are some common indicators that may suggest the presence of illegal deposit-taking schemes:

a) **Promises of High Returns:** Illegal deposit-taking schemes often promise unrealistically high returns on investments. If an investment opportunity seems too good to be true, it may be a red flag.

b) **Lack of Regulatory Approval:** Legitimate financial institutions are required to obtain regulatory approval to accept deposits from the public. Any entity or individual operating without proper authorization may be engaged in illegal deposit-taking.

c) **Unregistered Entities:** Individuals or entities that claim to accept deposits but are not registered with relevant financial regulatory authorities may be conducting illegal deposit-taking activities.

d) **Lack of Documentation:** Legitimate financial institutions provide documentation, such as investment agreements, receipts, and other official records. The absence of proper documentation or refusal to provide such documents is a warning sign.

e) **Pressure to Recruit Others:** Some illegal deposit-taking schemes operate as pyramid or ponzi schemes, relying on a continuous influx of new investors to pay returns to earlier participants. If there is pressure to recruit others as part of the investment, it may indicate a fraudulent scheme.

f) **Opaque Investment Strategies:** Legitimate investments typically have transparent and well-defined strategies. If the investment strategy is unclear or difficult to understand, it could be a sign of fraudulent activity.

g) **Lack of Physical Presence:** Illegitimate deposit-taking entities may operate solely online or through other remote channels, making it challenging to verify their physical presence or authenticity.

h) **Limited Information and Communication:** Scammers may provide limited information about themselves, the investment, or their operations. Additionally, they may avoid direct communication or be evasive when asked for details.

i) **Pressure to Invest Quickly:** Fraudsters often pressure individuals to make quick investment decisions without providing sufficient time for due diligence. Urgency in investing may indicate a potential scam.

j) **No Clear Business Model:** Legitimate financial institutions have clear and sustainable business models. If an investment opportunity lacks transparency regarding how returns are generated or sustained, it may be a cause for concern.

k) **Non-Traditional Payment Methods:** The use of unconventional or untraceable payment methods, such as crypto currency or cash transactions, may be associated with illegal deposit-taking activities.

Recommendations

It is important for individuals to be vigilant and cautious when considering investment opportunities, especially those promising unusually high returns.

Seeking advice from licensed financial professionals and conducting due diligence before making financial transactions can help mitigate the risks associated with illegal deposit-taking. Additionally, reporting any suspicious activities to relevant authorities can contribute to efforts to curb such illegal practices.

4.2 Fraud/ Scams

The use of fraud to commit money laundering represents a sophisticated and illicit strategy employed by criminals to legitimize unlawfully obtained funds. Money laundering involves disguising the origins of illegally gained money, making it appear as if it comes from legitimate sources. Fraud serves as a means to generate illicit funds or exploit existing financial systems for this purpose.

Fraudulent activities such as identity theft, ponzi schemes, or various financial scams (religious scams, love scams) are utilized by criminals to accumulate significant sums of money through deceitful means. Once these illicit funds are acquired, money launderers employ complex techniques to clean the money, making it difficult to trace it back to its criminal origins.

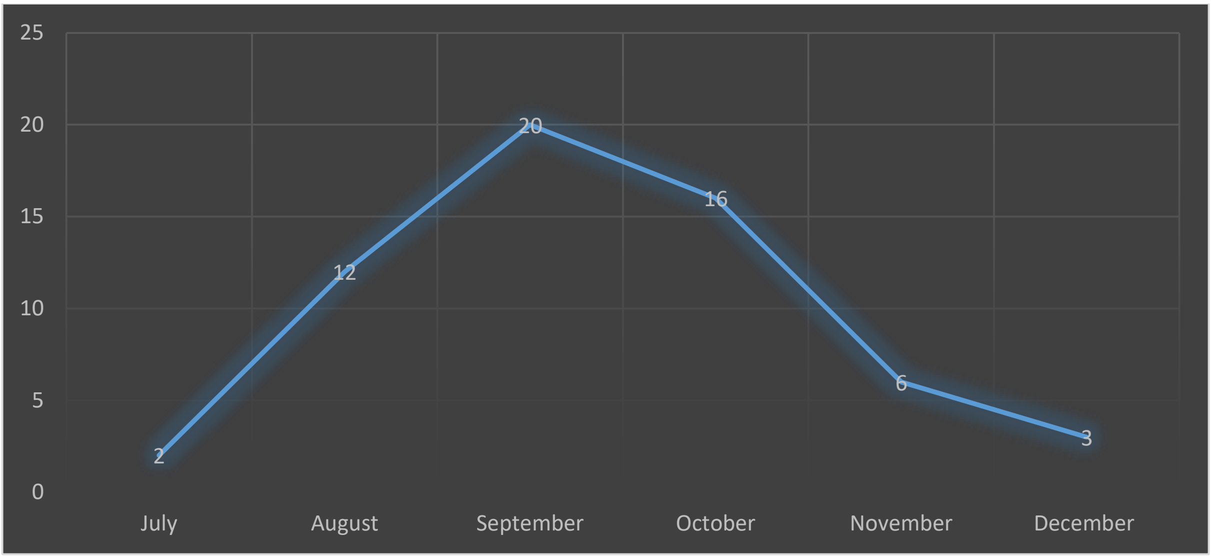


Figure 10: Trend Analysis of Fraud/ Scam reports

The trend above shows a number of fraud/ scam reports observed between July and December 2023. The analysis shows that a total of 59 cases were analysed by the Agency. Some of AML/CFT/CFP fraud cases being analysed by the Agency include;

i. Identity theft: This occurs when someone wrongfully obtains and uses another person's personal information (such as their name, credit card details, etc.) for fraudulent purposes. This stolen identity is then used to commit various fraudulent activities.
ii. Financial Fraud: Falsifying documents to open fraudulent bank accounts, apply for loans, or make unauthorized purchases.

Recommendations

Financial institutions/ Banks are encouraged to employ stringiest measures such as Know Your Customer (KYC), Enhanced Due Diligence (EDD) and AML regulations, to detect and prevent fraudsters from using our financial system to clean their proceeds. Ongoing vigilance and collaboration are key components of an effective anti-money laundering strategy.

4.3 Mobile Money scam

Batswana continue to fall victims to phishing scams mostly through Money Value Transfer Services such as Orange Money and Myzaka mobile money accounts. During the period under review, the Agency received a total of eleven (11) cases compared to seven (7) which were filed during the first half of the year. In this type of fraud, scammers masquerade as agents/representatives from mobile companies. In an attempt to defraud their victims, scammers tell their victims that their mobile money accounts have randomly been selected as winners from an ongoing competition which the victims have never entered in the first place. The scammers then ask victims to dial certain numbers in their mobile phones in order to access the money they purportedly won. In the end, the victims realize that they were in fact being tricked to transfer their balances to phone numbers belonging to fraudsters. The figure below illustrates the number of mobile money fraud cases received by the Agency in 2023. The figure indicates an increasing trend in this type of fraud.

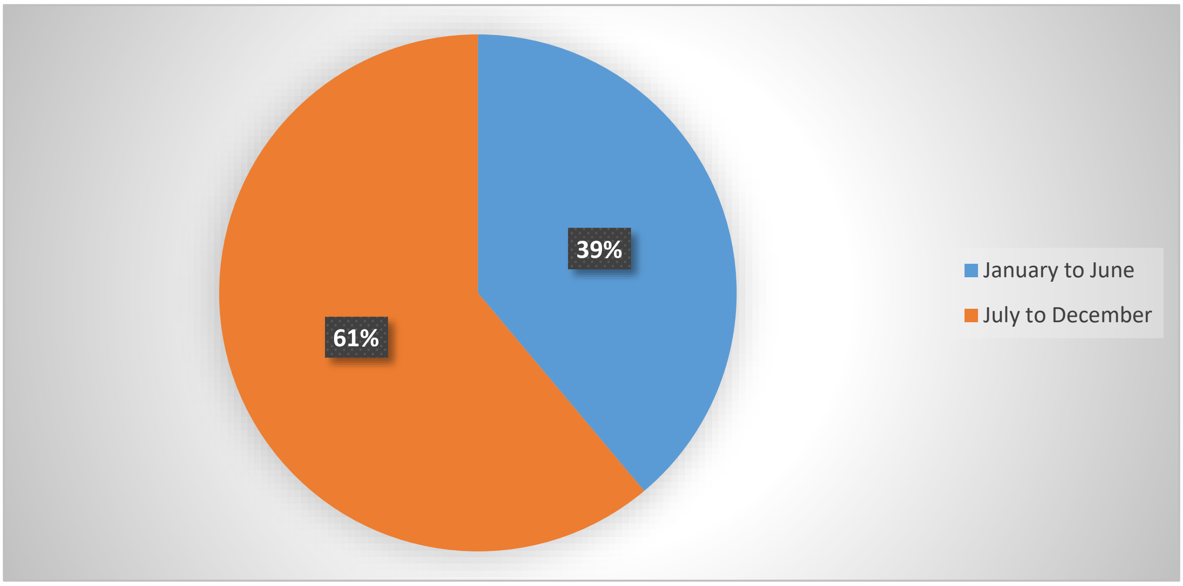


Figure 11: *Number of mobile money fraud cases received*

Recommendations

Individuals are encouraged to be vigilant at all times. Batswana are encouraged to keep their personal information secure. If you get a random or anonymous call purporting that you are a winner from a competition you have never entered, or ever have doubts about a transaction or communication received in your mobile, it's better to verify with your mobile money service provider before taking any further action.

5. CONCLUSION

The comprehensive examination of the aforementioned trends indicates that Botswana faces significant vulnerability to money laundering. Botswana being a cash economy complicates endeavors to counter money laundering, as it offers opportunities for criminals to launder and conceal illicit proceeds. Moreover, there exists a general lack of awareness regarding AML/CFT/CPF issues among the general public and reporting/accountable institutions, further complicating efforts to combat financial crime effectively. The analysis further shows that the financial sector remains the most vulnerable to the concealment of the origins of illegally obtained money due to the amount of large cash transactions involved in the sector.

While recent data indicates a surge in Trade Based Money Laundering (particularly the externalization of funds) during the first half of 2023, the Agency observed that during the review period, these cases were relatively insignificant. Nonetheless, the Agency remains vigilant in monitoring this emerging trend.

Moreover, it is crucial to alert the public about a new fraudulent scheme known as "Miracle Farm Investment." This scam promises participants high returns on their investments. The scheme disguises as a lucrative agricultural investment opportunity, where participants believe they are funding or partnering in profitable farming ventures. The promoters use a WhatsApp link to attract investors, claiming that participants would receive significant interest or returns on their contributions.

However, there is no evidence that actual farms or agricultural activities are involved. The scam focuses purely on financial promises to entice people. This fraudulent strategy aligns with the characteristics of pyramid or ponzi schemes, where returns to earlier investors are often paid using funds from newer participants, rather than from any real business operations.

The public should exercise caution and vigilance to avoid falling victim to this fraudulent activity. In response, our Agency, alongside LEAs, is actively pursuing the perpetrators of this scheme, demonstrating our unwavering commitment to safeguarding the integrity of Botswana's financial landscape and protecting the interests of its citizens.

6.0 RECOMMENDATIONS

The Agency is employing a number of strategies which are geared towards preventing fraudsters from laundering illegally obtained funds. These include;

- Promote ongoing trainings and capacity buildings for financial institutions’ staff to ensure they are equipped with the necessary knowledge and skills to identify and report suspicious activities effectively
- Review of legal framework to align with FATF recommendations
- Promote local and regional cooperation and coordination among regulatory authorities
- Encourage outreach and engagement with all stakeholders including private sector to foster a collaborative approach to tackling financial crime.

The Agency will continue to issue trend reports and cautionary statements in a timely manner aimed at identifying and assessing potential risks and threats before they materialise. The trends would allow for timely and targeted risk mitigation strategies, reducing the impact of adverse ML/TF/PF events. All stakeholders are encouraged to stay informed by following the Agency’s and other AML/CFT/CFP stakeholder’s publications to stay abreast of the latest AML/CFT/CFP developments.