

FINANCIAL INTELLIGENCE CENTRE

THE 6TH MONEY LAUNDERING AND TERRORIST FINANCING

TRENDS REPORT

FOR THE YEAR 2019

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THE FINANCIAL INTELLIGENCE CENTRE

**THE 6TH MONEY LAUNDERING AND TERRORIST FINANCING TRENDS
REPORT, 2019**

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ACRONYMS

AML/CFTP	Anti-Money Laundering/Countering the Financing of Terrorism and Proliferation
AML	Anti-Money Laundering
CBCDR	Cross Border Currency Declaration Report
CTR	Currency Transaction Report
DNFBP	Designated Non-Financial Businesses and Professions
ESAAMLG	Eastern and Southern Africa Anti Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIC Act	Financial Intelligence Centre Act
LAZ	Law Association of Zambia
LEA	Law Enforcement Agency
ML	Money Laundering
ME	Mutual Evaluation
ML/TF	Money Laundering/Terrorist Financing
MVTS	Money Value Transfer Services
PEPs	Politically Exposed Persons
SADC	Southern African Development Community
SDR	Spontaneous Disclosure Report
STR	Suspicious Transaction Report
TF	Terrorist Financing
UNODC	United Nations Office on Drugs and Crime
ZICA	Zambia Institute of Chartered Accountants
ZRA	Zambia Revenue Authority

MESSAGE FROM THE DIRECTOR GENERAL

During 2019, the Financial Intelligence Centre (the Centre or the FIC) continued to execute its mandate despite experiencing many challenges. The focus of the Centre continued to be the prevention and detection of Money Laundering, terrorism and proliferation financing (ML/TPF) and other financial crimes.

The Centre welcomed a new Board of Directors in September 2019 and bade farewell to the previous Board having served its tenure of office pursuant to the Financial Intelligence Centre Act, No. 46 of 2010 (the FIC Act).

In June 2019, the second (2nd) Mutual Evaluation Report (MER) for Zambia was published. The rating of the country improved from the previous Mutual Evaluation of 2007 which assessed Zambia on the forty (40) recommendations on ML and nine (9) recommendations on TF based on the 2004 Financial Action Task Force (FATF)¹ Recommendations. The outcome of the assessment was as follows; largely compliant with four (4) recommendations; partially compliant with fifteen (15) recommendations and non-compliant with thirty (30) recommendations. The 2019 evaluation however found that Zambia was compliant with eleven (11) recommendations; largely compliant with seventeen (17) recommendations; partially compliant with eleven (11) recommendations and non-compliant with one (1) recommendation. The evaluation however identified areas that need improvement. The main areas that need improvements are the legal framework for the FIC, particularly on Customer Due Diligence (CDD). Some improvements are also required in the Anti-Terrorism and Non-Proliferation Act No. 6 of 2018 such as, provisions for the implementation of targeted financial sanctions on Proliferation Financing (PF). Both laws are receiving active attention from the FIC and the National Anti-Terrorism Centre respectively. To this effect, the Eastern and Southern Africa Anti-Money

¹ The FATF is an inter-governmental body which sets standards, and develops and promotes policies to combat money laundering and terrorist financing (<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/the40recommendationspublishedoc>)

Laundering Group (ESAAMLG) will continue to monitor the progress the country is making towards improving its Anti-Money Laundering and Countering the Financing of Terrorism and proliferation (AML/CFTP) regime. The international AML/CFTP regime requires countries to demonstrate effectiveness by the level of ML convictions and forfeiture of assets from proceeds of crime. This requires improvements in the whole AML/CFTP value chain.

The implementation of the 2016 – 2019 Strategic Plan for the Centre was concluded in December 2019. The focus of the plan was to increase effectiveness in the Centre. This was achieved as evidenced by the results of the Mutual Evaluation where the FIC was rated compliant with Recommendation 29² of the Financial Action Task Force (FATF) standards which focuses on the operation of Financial Intelligence Units (FIUs).

It is now the Centre's intention to build on this success during the next strategic period which will run from 2020 - 2022. Our strategic focus for 2020 – 2022 will be to enhance collaboration and cooperation with Law Enforcement Agencies (LEAs) and other stakeholders. The Centre has devised initiatives that will assist improve collaboration and cooperation, with a view to increase its level of effectiveness. Since the admission to the Egmont Group of FIUs, the Centre has been able to exchange financial intelligence information with Egmont Group member countries. As at 31st December 2019, the FIC had exchanged information with eleven (11) countries.

The Centre has continued to collaborate and coordinate with its stakeholders. One such effort was the organization of the first ever Trade Based Money Laundering training organized in conjunction with the Attorney Generals

² Financial intelligence units * Countries should establish a financial intelligence unit (FIU) that serves as a national centre for the receipt and analysis of: (a) suspicious transaction reports; and (b) other information relevant to money laundering, associated predicate offences and terrorist financing, and for the dissemination of the results of that analysis. The FIU should be able to obtain additional information from reporting entities, and should have access on a timely basis to the financial, administrative and law enforcement information that it requires to undertake its functions properly.

Alliance, Africa Alliance Partnership (AGA AAP). The workshop attracted participants from both the private and public sectors. It was officially opened by the Attorney General of the Republic of Zambia. As a result of this training, the FIC has commenced a typology study on trade based money laundering. Further, the Southern Africa Development Community (SADC) has invited the FIC to work with them in expanding the study into a regional project.

The Centre also successfully coordinated the production of a typology report on *Procurement Corruption and Associated Money Laundering in Southern and Eastern Africa* under the auspices of ESAAMLG. The report that was adopted by the Council of Ministers at the ESAAMLG meeting in September 2019 in Ezulwini, Kingdom of Eswatini established that public procurement activity is a major driver for corruption in Zambia and the region at large.

During the period under review, the Centre received a total of seven hundred and ninety (790) reports comprising of seven hundred and forty eight (748) Suspicious Transaction Reports (STRs) and forty two (42) Spontaneous Disclosure Reports (SDRs). This compares to seven hundred and ninety nine (799) reports received in 2018 comprising of seven hundred and twenty four (724) STRs and seventy five (75) SDRs. In addition, the Centre received a total of one hundred and forty nine thousand six hundred twenty five (149,625) Currency Transaction Reports (CTRs) in the year 2019 compared to seventy five thousand five hundred ninety two (75,592) CTRs received in 2018. This represents a 98 percent increase in the number of CTRs filed with the Centre. The increase was on account of more reporting entities becoming aware of their reporting obligations. The other type of report the Centre receives are the Cross Border Currency Declaration Reports (CBDR). In 2019, a total of one thousand one hundred and twenty six (1126) CBDRs were received by the FIC compared to two thousand one hundred sixty nine (2169) reports in 2018.

The different reports mentioned above are all used for analysis to develop financial intelligence. In addition, the Centre also relies on financial intelligence exchanged with foreign FIUs and Domestic Competent authorities. Of the total STRs received in 2019, one hundred and one (101) were analysed out of which forty four (44) were disseminated and fifty seven (57) were closed as there were no reasonable grounds for dissemination.

As previously stated, one of the major drivers for generation of proceeds of crime is corruption associated with public procurement. During the period under review, STRs received related to procurement corruption reduced. As a result, the number and value of intelligence reports associated with this predicate offence also reduced. Further, the reduction in the number and value of intelligence reports analysed is attributed to unpredictable funding. This adversely affected the Centre's ability to verify STRs and SDRs. As a result of which the Centre disseminated forty four (44) intelligence reports to (LEAs) with suspected losses valued at nine hundred and eighty-four million Kwacha (ZMW 984 million) compared to the ZMW 6.1 billion reported in 2018 from eighty (80) intelligence reports disseminated to LEAs.

The Government continues to lose revenue through laundered funds which negatively affect revenue mobilization necessary for provision of public goods and services. As a result of the disseminations made by the Centre, ZRA assessed taxes amounting to ZMW 27.7 million in 2019, compared to ZMW 62 million in 2018.

The amendments to the Act in 2016 introduced the Inspectorate department in the FIC. Section 11(a) of the Act provides that *" the Centre shall for the purposes of ensuring compliance with the provisions of this Act, establish an inspectorate with the necessary technical staff and facilities required to administer, monitor and enforce measures to detect, prevent and deter money laundering and*

financing of terrorism and proliferation." The Centre has partially established this department but it has not been fully operationalized due to lack of funding.

With the continued support of Government, the Centre will endeavor to uphold its mandate in the fight against ML and TF. This will be made possible by the continued support and collaboration by all AML/CFTP stakeholders.



Mary Chirwa (Ms.)
Director General
Financial Intelligence Centre

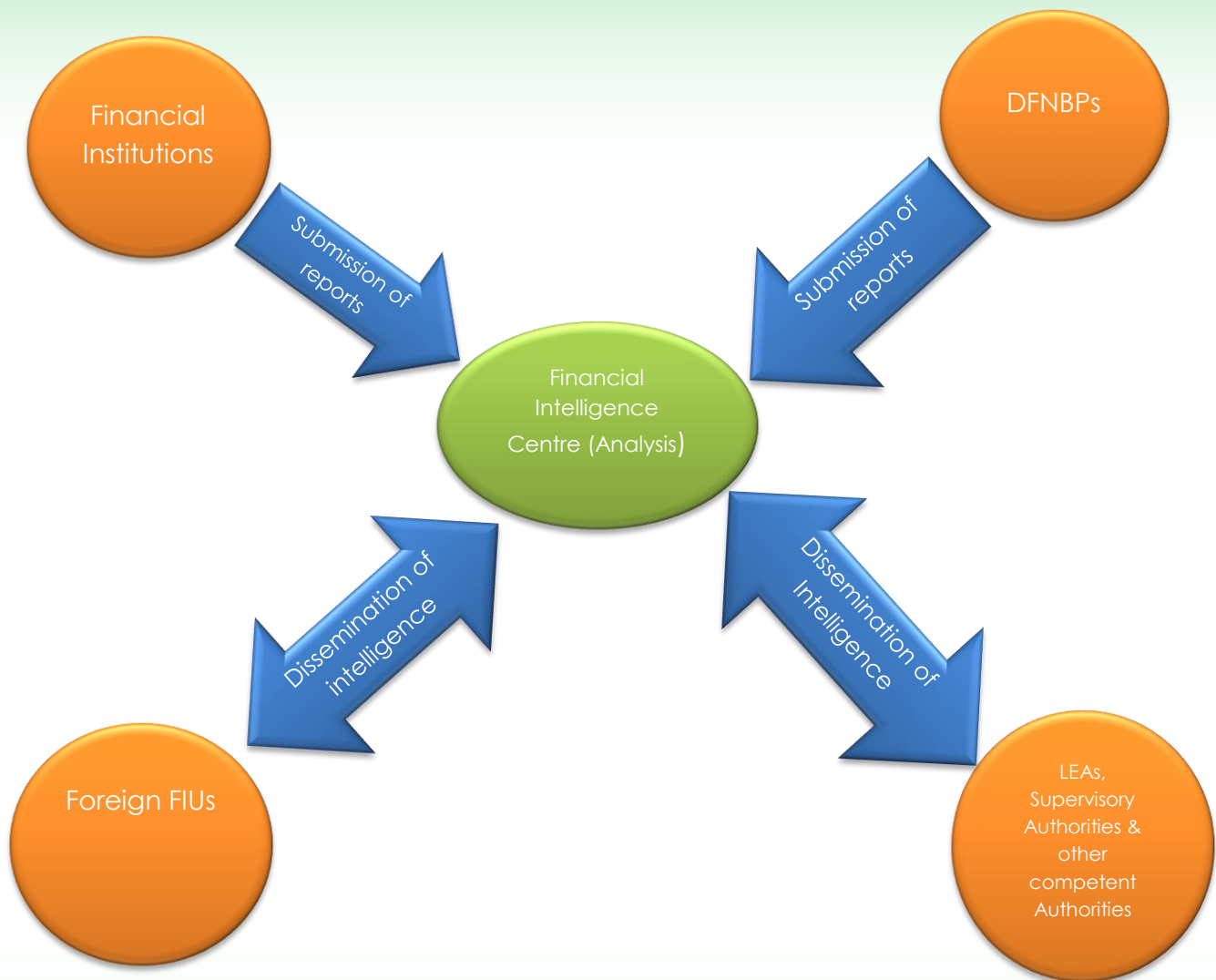
1.0 THE FUNCTIONS OF THE FINANCIAL INTELLIGENCE CENTRE

The FIC is an independent and autonomous body corporate established under the *Financial Intelligence Centre Act No 46 of 2010 (the Act)*. Pursuant to section 5(2) of the Act, the FIC's functions are *inter alia*, to:

- (a) **receive, request, analyse and evaluate**(emphasis ours) Suspicious Transaction Reports (STRs) and information from any other source authorised under any written law to make suspicious transaction reports including a foreign designated authority to determine whether there are reasonable grounds to transmit reports for investigations by Law Enforcement Agencies or foreign designated authority;
- (b) **disseminate**(emphasis ours) information to Law Enforcement Agencies where there are reasonable grounds to suspect Money Laundering or financing of Terrorism and proliferation;
- (e) **educate**(emphasis ours) the public and reporting entities of their obligations and **inform** them of measures to detect, prevent and deter money laundering and financing of terrorism and proliferation;

The FIC undertakes tactical and strategic analysis. Tactical analysis aims to detect suspected ML/TF through identification of sources of proceeds of crime, links between criminal associates and syndicates and the dissemination of intelligence reports to LEAs and other competent authorities. Further, information gathered during the year is collated to identify trends, risks and methods used in ML/TF which is published in the Trends Report through Strategic Analysis. This is in fulfilling the FIC's mandate of educating the public on ML/TF.

Figure1: Graphical representation of the AML/CFTP value chain



2.0 PURPOSE OF THE TRENDS REPORT

The publication of the 2019 ML/TF Trends Report is made pursuant to section 5(2)(e) of the FIC Act which empowers the FIC to “*educate the public and reporting entities of their obligations and inform them of measures to detect, prevent and deter money laundering and financing of terrorism and proliferation*”. Further, the Trends Report is published in line with Recommendation 29.4(b)³ of the FATF standards which require FIUs to conduct strategic analysis. The Trends Report may influence policy formulation and assist stakeholders in the AML/CFTP regime through strengthening of cooperation and better understanding of risks, trends and methods being applied by suspected criminals in the AML/CFTP environment.

The Report has continued to elicit public interest through debates in both the print and electronic media. It has been subject of discussion at international fora such as universities in instructing participants on ML/TF trends. It is on this basis that the ESAAMLG in April, 2019 nominated the FIC-Zambia to spearhead the development of “Guidance Notes on Best Mechanisms and Practices of Producing Quality Intelligence Reports”. A draft report has been produced and is undergoing review by members of the ESAAMLG.

3.0 TACTICAL ANALYSIS

Tactical analysis involves usage of available and obtainable information to identify specific targets, to follow the trail of particular activities or transactions and to determine links between those targets and possible proceeds of crime, money laundering, predicate offences and terrorist financing.

³ FIU should conduct strategic analysis which uses available and obtainable information including data that maybe provided by other competent authorities, to identify money laundering and terrorist financing related trends and patterns.

4.0 RECEIPT

The Act obligates reporting entities to submit STRs and CTRs to the FIC. In 2019, the Centre received seven hundred and forty eight (748) Suspicious Transaction Reports (STRs) and one hundred forty nine thousand six hundred and twenty five (149,625) Currency Transaction Reports (CTRs). Table 1 shows the statistics on reports submitted to the Centre. Furthermore, the Centre received forty two (42) Spontaneous Disclosure Reports (SDRs) from other sources in 2019 compared to seventy five (75) in 2018.

The FIC has observed a correlation between non-reporting of STRs and CTRs and non-designation of compliance officers in reporting entities. The Centre has continued to conduct awareness sessions in reporting entities on the need to designate compliance officers. As of December 2019, the total number of reporting entities was two thousand four hundred and forty nine (2,449). See appendix two (2) on the status of designation of compliance officers by reporting entities.

Table 1: STRs and CTRs received by number

Type of Report by number	Years		
	2019	2018	2017
STRs	748	724	969
CTRs	149,625	75,592	73,269

Source: Financial Intelligence Centre, Zambia- 2019

While the increase in the number of STRs submitted between 2018 and 2019 was minimal, the number of CTRs received by the Centre increased by 98 percent. The significant increase in the number of CTRs is attributed to more reporting entities becoming aware of their reporting obligations and being electronically connected to the Centre to facilitate reporting.

Table 2: STRs received by number and value per year

Year	Number of Reports	Value(ZMW) 'millions
2019	748	2,414
2018	724	1,027
2017	969	932

Source: Financial Intelligence Centre, Zambia- 2019

Reporting entities comprise financial institutions and Designated Non-Financial Businesses and Professions (DNFBPs). In the period under review, 99% of STRs received came from the financial institutions. See table 3 below for details.

Table 3: Suspicious Transaction Reports by Sector

	Number of reports received by year		
Sector	2019	2018	2017
Banks	713	648	882
MVTS Providers	23	58	69
Microfinance	10	12	13
Casinos	1	1	0
Insurance	0	2	3
Real Estate	0	1	0
Building Societies	0	1	0
Bureaus	1	1	2
Other DNFBPs	0	0	0
Total	748	724	969

Source: Financial Intelligence Centre, Zambia- 2019

As reflected in table 3, the banking sector accounted for 89.5% of the STRs received by the Centre in 2018 and 95% in 2019 respectively. The other sectors constituted 5% of reports received in 2019 compared to 10.5% in 2018. This may

indicate that banks have strong controls and transaction monitoring systems in place. It further indicates that there is need for improvement in the remaining sectors particularly the DNFBPs sector that is susceptible to launderers. The MVTs sector has seen a progressive reduction in the number of STRs reported, the FIC will enhance its AML/CFT supervision for MVTs providers and the DNFBPs.

During the year 2019, STRs reported by Mobile Value Transfer Services (MVTs) were on suspected phishing schemes. This is the fraudulent attempt to obtain sensitive information from unsuspecting members of the public through email or telephone communication.

Table 4: CTRs by currency

YEAR	CURRENCY (millions)			
	ZMW	USD	EUR	ZAR
2019	36,410	4,115	13,653	26,896
2018	10,808	1,869	0.28	2,710
2017	12,358	583	1.4	1.7

Source: Financial Intelligence Centre, Zambia- 2019

The table above shows that there was a corresponding increase in the value of CTRs reported from 2017-2019 across all currencies. The Currency threshold in Zambia is USD10,000 pursuant to regulation seven (7) of the Financial Intelligence Centre (Prescribed Threshold) Regulations, Statutory Instrument No.52 of 2016. This entails that all currency transactions above or equal to USD10,000 should be reported to the FIC by reporting entities. However, the CTRs were only received from the banking sector which constituted 99 percent with the remaining 1 percent from the MVTs sectors. The FIC will continue to supervise and monitor compliance with reporting obligations.

Table 5: Cross Border Currency Declaration Reports by value and number

Years					
2019	value(USD) millions	2018	value(USD) millions	2017	value(USD) millions
1,126	72	2,169	102	1,021	57

Source: Financial Intelligence Centre, Zambia-2019

The Centre further receives Cross Border Currency Declaration Reports (CBDR). In 2019, a total of one thousand one hundred and twenty six (1126) CBDRs were received by the FIC amounting to USD 72million compared to two thousand one hundred and sixty nine (2169) reports in 2018 amounting to USD 102 million. Of these reports, 96% were from Kasumbalesa border post and were declarations made by Congolese Nationals.

The ZRA collaborated with the FIC to introduce an electronic declaration system for travelers entering or leaving Zambia with an amount in cash, negotiable bearer instruments or both exceeding the kwacha equivalent of USD 5,000 whether denominated in Zambian kwacha or foreign currency. This has led to an increase in the number of border posts submitting reports. Travellers are required to declare to a customs officer such an amount in accordance with the Customs and Excise Act. The border posts that began to submit reports were Kenneth Kaunda International airport, Chirundu, Kazungula and Nakonde.

5.0 EXCHANGE OF INFORMATION

In 2019, the Centre requested for information from thirty one (31) Domestic Competent Authorities and five (5) Foreign Financial Intelligence Units (FIUs). This compares to seventy one (71) requests made to Domestic Competent Authorities and seven (7) requests to Foreign FIUs in 2018. In addition, the Centre requested for information from reporting entities that have not been reporting accordingly, particularly in the Designated Non-Financial Businesses and Professionals (DNBFPs) sector.

The Centre received requests for information from Domestic Competent Authorities and from Financial Intelligence Units. In 2019, the number of requests for information received from competent authorities was five (5) compared to twelve (12) in 2018 and the Centre responded to all of them. One of these requests related to suspected Terrorist Financing involving seventeen (17) entities. Further, the Centre received seven (7) requests from Foreign FIUs in 2019 and no requests were received in 2018.

6.0 ANALYSIS AND DISSEMINATION

In 2019, the Centre analysed one hundred and one (101) STRs compared to one hundred and seventy-six (176) in 2018. A total of forty four (44) intelligence reports were disseminated to LEAs bordering on ML and various predicate offences in 2019 compared to eighty (80) in 2018. In 2019, fifty seven (57) reports were closed after analysis as there were no reasonable grounds to disseminate. This compared to ninety-six (96) reports closed in 2018.

The reduction in the number of reports analyzed in 2019 was due to financial constraints and inadequate human resources.

Table 6 below shows the detail.

Table 6: Analysed Reports by value and number

Suspected Offence	2019		2018		2017	
	No. of reports	Values (Millions)	No. of reports	Values (Millions)	No. of reports	Values (millions)
Tax Evasion	27	1,889	102	1,037	45	3,906
Corruption	7	332	11	4,796	10	1,085
Fraud	21	1,113	26	112	13	5
Money Laundering	6	450	26	197	10	92
Others	40	5	11	-	6	-
Totals	101	3,789	176	6,142	84	5,088

Source: Financial Intelligence Centre, Zambia-2019

Table 7: Disseminated Reports by value and number

Suspected Offence	2019		2018		2017	
	No. of reports	Values (Millions)	No. of reports	Values (Millions)	No. reports	Values (millions)
Tax Evasion	17	144	51	1,000	30	3,900
Corruption	4	332	7	4,795	5	500
Fraud	8	53	5	110	2	3
Money Laundering	6	450	12	195	4	91
Others	9	5	5	0	6	0
Total	44	984	80	6100	47	4494

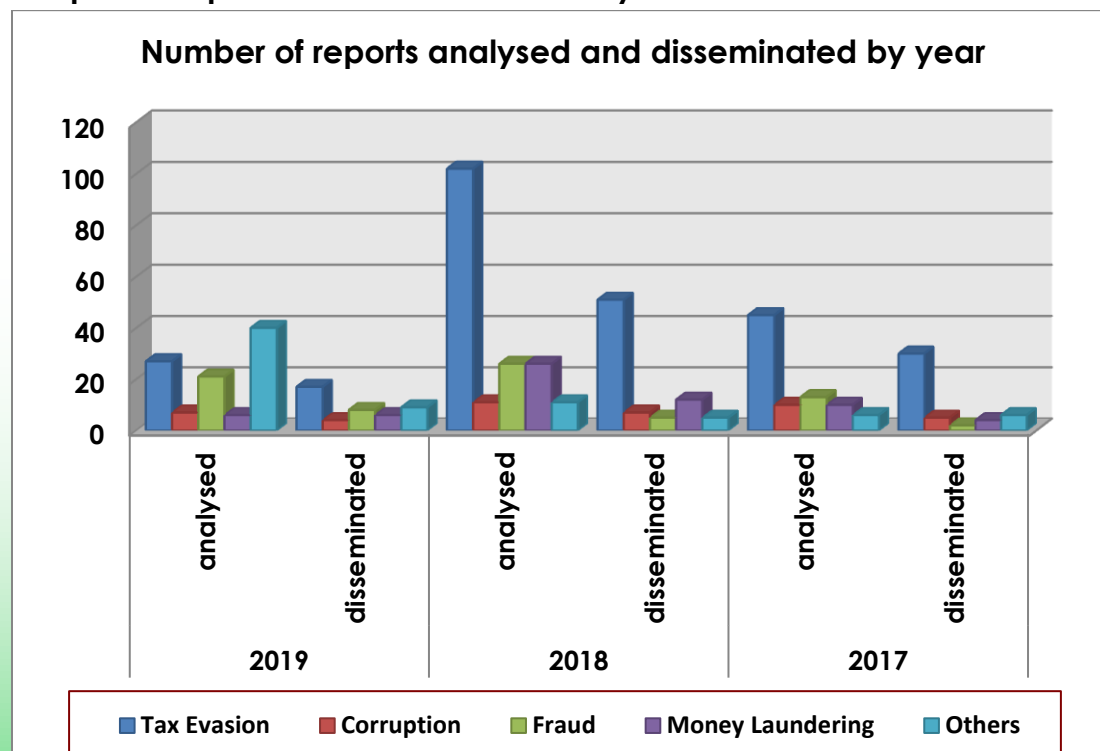
Source: Financial Intelligence Centre, Zambia-2019

The value of reports disseminated reduced from ZMW 6.1 billion in 2018 to ZMW 984 million in 2019. Most of the disseminations in 2019 were of low value relative to those in 2018. Further, the disseminations related more to individuals than corporates which usually have higher values.

Reports were disseminated for suspected violations under the following laws:

- i. Income Tax Act, chapter 323 of the Laws of Zambia
- ii. Customs and Excise Act, chapter 322 of the Laws of Zambia
- iii. Penal Code, chapter 87 of the Laws of Zambia
- iv. Forfeiture of Proceeds of Crime Act, No. 19 of 2010
- v. Prohibition and Prevention of Money Laundering Act, No. 14 of 2001 (as amended)
- vi. Anti-Corruption Act, No. 3 of 2012

Graphical representation of cases analyzed and disseminated



Source: Financial Intelligence Centre, Zambia-2019

Over the past three (3) years, the key predicate offences on which reports have been disseminated remain the same, namely tax evasion, corruption, money laundering and fraud.

7.0 TRENDS ANALYSIS OF SUSPECTED OFFENCES

This section outlines the most prevalent offences observed during the review period. It further highlights methods and patterns through which proceeds of crime are laundered. The case studies highlighted have been disseminated to LEAs.

7.1 Suspected Tax Evasion

From 2018 to 2019, there was a decline in cases involving tax evasion. This may be attributed to increased implementation and enforcement of tax laws and regulations by the Zambia Revenue Authority (ZRA). In 2019, ZRA assessed ZMW 27.7 million as a result of the disseminations made by the Centre compared to ZMW 62 million assessed in 2018.

In addition, analysis of STRs in 2019 indicates that some institutions are operating in Zambia without being registered for taxes. In other instances institutions are registered in the wrong tax category. For example institutions are registered for turnover tax when their turnover has already significantly exceeded the prescribed threshold.

Methods employed to evade tax include;

- i. Repatriation of proceeds from mining companies in Zambia to offshore jurisdictions while declaring losses in Zambia.
- ii. Use of employee accounts by corporates; proceeds were channeled through employee accounts in order to reduce the revenue and therefore the tax liability.

- iii. Some corporates continued to employ false accounting techniques to reduce their tax obligations. This was done through group company loans and use of personal accounts for business purposes.
- iv. None declaration of exportation of resources such as Rosewood (Mukula).
- v. Under valuation of precious stones and base metals that are exported to foreign jurisdictions

Case study

The Centre received information on suspected fraud involving **Mr. X**, a foreign national resident in Zambia and shareholder in three (3) companies. It was alleged that **Mr. X** held assets in excess of USD 30 million in a bank overseas. Of this amount, USD 22 million was from two (2) of his companies in Zambia.

A review of the financial statements showed that shareholders had advanced loans to two (2) of the companies that were loss making for the period 2016 to 2018.

The analysis revealed that the companies were transferring funds to **Mr. X's** personal account in a bank overseas and later received these funds as loans. The high interest payments on the loans put them in a loss making position hence reducing their tax liability.

Further, the inquiry revealed that one of the companies was not registered with the Zambia Revenue Authority for any type of tax.

Recommendation

- i. Zambia should introduce a revenue based tax system on resource based products to reduce the level of tax evasion.

Other recommendations

- i. Zambia Institute of Chartered Accountants (ZICA) should strengthen the supervision of accounting and audit firms to ensure that financial

statements are of reasonable quality and can be relied upon as a basis for determination of tax liability.

- ii. The Government through the Ministry of Mines and Minerals Development should enact a law that compels companies in the precious metals sector to auction precious stones in Zambia to ensure transparency in the pricing mechanism and therefore fair taxes. The actualization of this recommendation will have positive ripple effects on other sectors of the economy.

7.2 Corruption

The Centre received a total of eighteen (18) reports involving suspected corruption mostly perpetrated by individuals charged with authority. The Government continues to lose funds that are meant for the provision of public goods and services due to corruption. It was observed that individuals used their positions in public institutions to influence the awarding of contracts to companies in exchange for gratification in the form of cash, real estate and motor vehicles.

There were also a number of reports to the Centre on suspected corruption that bordered specifically on fraud and/or bribery. Public servants were the perpetrators who were paid in order to grant favours to business persons, especially foreign nationals.

One of the major sources of corruption continues to be single sourcing of projects which are non-competitive. The contraction of loans on these projects also attracts usury arrangement fees, in some instances up to 9 % of the amount of loan contracted. These fees are distributed between agents and persons responsible for the projects in public institutions. Projects under the Public Private Partnership (PPP) arrangements and loans contracted by quasi Government bodies from private entities are of particular concern. The provisions of the Public Private Partnership Act No. 14 of 2009 as amended (PPP Act) creates

vulnerabilities in the procurement process relating to PPP projects. Specifically, section 35 of the PPP Act states:

“A contracting authority may negotiate an agreement, subject to the approval of the Council, without using the procedure set out in this Part in the following cases:

(a) where the project is of short duration and the anticipated initial investment value does not exceed an amount prescribed;

(b) where the project involves national defence or national security;

(c) where there is only one source capable of providing the required service, such as, when the provision of the service requires the use of intellectual property, trade secrets or other exclusive rights owned or possessed by a certain person or persons;

(d) where an invitation to the pre- selection proceedings or a request for a proposal has been issued but no proposals were submitted or all proposals failed to meet the evaluation criteria set out in the request for proposals and if, in the opinion of the contracting authority, issuing a new invitation to the pre-selection proceedings and a new request for technical proposals is not likely to result in an infrastructure project or facility award within the required time frame; or

(e) in any other case where the Council authorizes such an exception for compelling reasons of national or public interest.”

The vulnerabilities arising in the cited sections provide a wide scope within which discretion maybe given for awarding an agreement without following competitive procedures.

Case studies: Suspected Corruption

Case 1

PEP A, head of a public institution **H**, manipulated the tender process and influenced the awarding of a contract to company **Y** for the supply of equipment at an inflated price. He received a percentage of this inflated price in return.

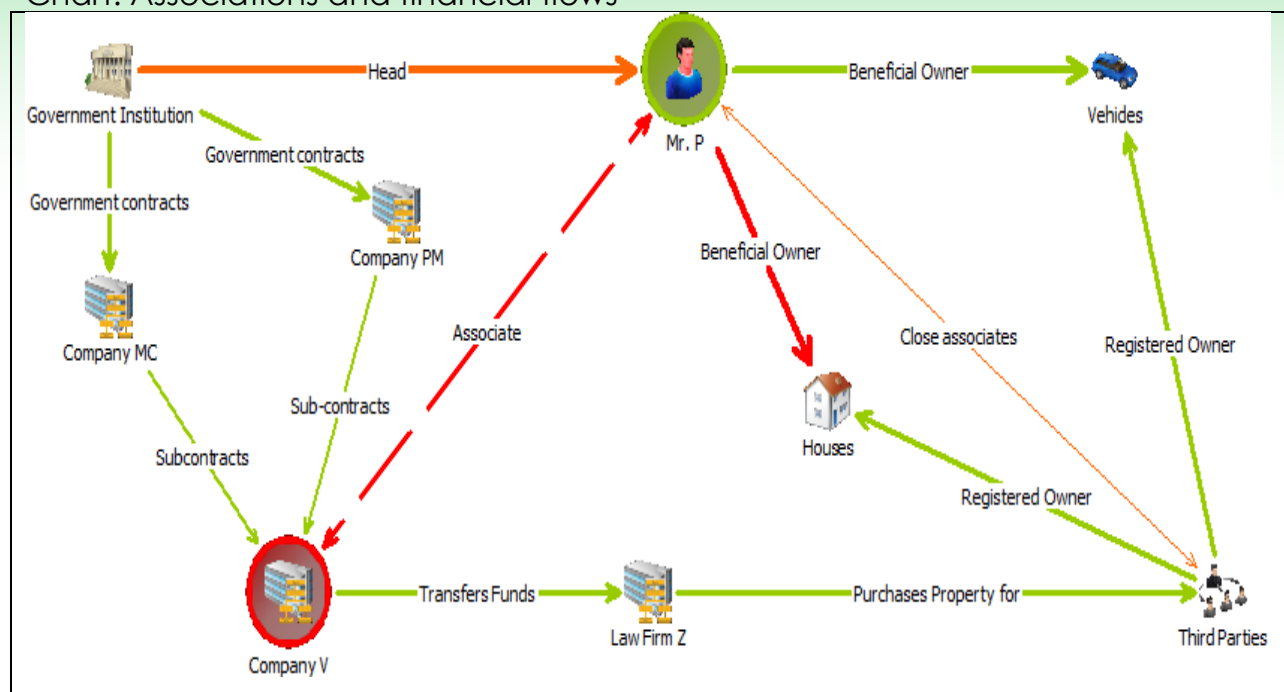
Case 2

Companies **MC** and **PM**, foreign owned, were awarded contracts by a public institution headed by **P** who acquired unexplained wealth after his appointment in the public sector. Company **MC** transferred ZMW 10 million to a law firm. The funds were then used for the purchase of properties on behalf of **P**.

Company **V**, another foreign owned company, subcontracted by Company **MC**, purchased properties on behalf of **P**. These properties were registered in the names of third parties associated to **P**. He was subsequently accused of concealing property reasonably suspected to be proceeds of Crime.

The chart below illustrates the associations and financial flows in the case.

Chart: Associations and financial flows



Source: Financial Intelligence Centre, Zambia-2019

Recommendation

Section 35 of the PPP Act cited above should be amended to increase transparency and reduce the incidence of single sourcing, non-competitive and unsolicited proposals that are prone to corruption.

Case Studies: Fraud

Case 1

A Zambian incorporated Company **H**, engaged in a campaign advertising the sale of crypto currencies. A few months after incorporation, Company **H** received funds from members of the public as deposits for investments in crypto-currencies. These funds were later sent to various entities in Asia. Company **H** was created as a special purpose vehicle to defraud unsuspecting members of the public as they did not obtain a return on their investments.

Recommendations

- i) Reporting entities in particular, financial institutions should enhance their CDD processes at account opening and perform enhanced due diligence on high risk customers.
- ii) Zambia should put in place legal and institutional framework to supervise Virtual Assets (such as crypto currency) and Virtual Assets Service Providers (VASPs).
- iii) The public should be cautious with invitations to invest in virtual assets and if in doubt consult the Securities and Exchange Commission, Bank of Zambia and the Pensions and Insurance Authority.

Case 2

Public officials with access to payment systems abused their positions and embezzled ZMW 4 million. These officials created fictitious accounts onto the system as employees and paid them monthly salaries. The proceeds were used to purchase various properties.

Recommendation

Government through Smart Zambia should develop a mechanism for biometric identification to establish existence and accuracy of payroll records.

7.3 Wildlife/ Environmental crimes

In 2019, the Centre continued to receive STRs related to environmental crimes particularly the illegal harvest, transportation and export of the prohibited rosewood popularly known as “Mukula”. These reports originated from areas where the endangered tree is indigenous. Further, the Centre observed that the funds generated from the sale of the prohibited tree were declared to financial institutions as proceeds from the sale of timber.

The suspected perpetrators of the vice are undertaking other businesses in Zambia that involve wood processing. This makes it easy to commingle the criminal activity and proceeds with the legitimate businesses.

Some of the reports analysed by the Centre involved interception of Mukula by authorities in neighboring countries who identified forged/falsified documents relating to the export of the endangered tree. One of the loopholes that exists and is being exploited by criminals is that Democratic Republic of Congo (DRC), one of Zambia's neighbouring countries has not effected the ban on the harvest, transportation and export of the rosewood species. Therefore local Rosewood is suspected to be declared as transiting Zambia from the Democratic Republic of Congo.

Statutory Instrument No. 58 of 2019 : The Control of Goods (import and export) (Forest Produce) (Authorisation of Importation) (Democratic Republic of Congo) order, 2019 which authorized the Democratic Republic of Congo (DRC) to transit forestry products through Zambia expired on 28th June 2020. The SI was manipulated to facilitate forgery of documents for forestry products harvested in Zambia and disguised as being from DRC.

In the case of Kalowa Mooto and the Director of Forestry & Attorney General (2017/HP/1016) the applicant sought the court to quash the Minister of Lands and Natural Resources' decision made at a press briefing on 13th June, 2017 that banned the export of all types of timber species for an indefinite period.

The judge ruled that the Minister of Lands and Natural Resources decision to ban all types of timber export at a press briefing held on 13th June, 2017 was illegal as it was not supported by any provision in the Forests Act No 4. of 2016.

Case study

A civil servant based in a rural district where the prohibited rosewood is indigenous and earns a monthly income of ZMW 5,000 received funds in excess of ZMW 2.5 million from various third parties mostly of foreign origin. These funds were suspected to be proceeds from the sale of the prohibited rosewood and were subsequently withdrawn in the form of cash.

Environmental crimes pose significant risks to the financial system and society as a whole.

Recommendations

- i. It is recommended that the national framework for the management, harvesting, transportation and export of forestry resources be reviewed to reduce the incidence of corruption.
- ii. It is recommended that Government should clarify the legal position on the harvesting, transportation and exporting of Mukula following the court judgement.
- iii. It is recommended that the SI cited above should not be renewed to reduce the incidences of forgery and illegal harvest, transportation and export of Zambian Mukula which has been detected by jurisdictions outside Zambia.

7.4 MONEY LAUNDERING

During the period under review, the FIC disseminated six (6) intelligence reports bordering on money laundering compared to twelve (12) in 2018. However, the value of the disseminations increased from ZMW 195 million in 2018 to ZMW 450 million in 2019. The major predicate offences that contributed to the generation of proceeds of crime were tax evasion and corruption. The trend observed was that the proceeds of crime were invested in offshore centers, local property market and in business.

8.0 OTHER TRENDS

8.1 Use of cash in commerce

In 2019, the Centre received and analyzed CTRs most of which involved agriculture, construction and general trading. These transactions were performed by both corporates and individuals. Some of the large cash deposits analyzed were made by individuals depositing business proceeds into personal accounts and evading tax in the process. The Centre also noted a continuous

trend in the use of large cash in the construction sector. Most of the transactions related to cement purchases.

Most of the reports reviewed by the Centre from the Agricultural sector related to maize and soya beans mainly from Lusaka and Copperbelt provinces. The use of cash in these sectors provides an avenue that can be exploited by criminals to launder illicitly obtained funds.

As regards to STRs, it was observed that 37 percent of the STRs received by the Centre related to cash transactions. The transactions were classified as either large or unusual cash deposits, large or unusual cash withdrawals and many third parties making deposits in the accounts. This pattern further indicates the risks associated with the use of cash in commerce including, lack of audit trail and disguising of third party beneficiaries of the transactions. Review of statistics on the STRs submitted to the Centre in the period under review shows that 37 percent of the STRs submitted related to the use of cash. This compares to 28 percent recorded in 2018, representing a 9 percent increase.

See appendix one (1) for the nature of suspicious transactions reported for the past three (3) years.

Recommendations

- 1) Government should consider differentiated tax rates for electronic and cash transactions to encourage use of electronic platforms. Good practice in countries such as India and Columbia and in the European Union include;
 - i. Mandatory use of electronic payments for transactions with the government/state
 - ii. Partial rebate of VAT when electronic payment systems are used
 - iii. Para-fiscal contribution that taxes cash transactions for sums above a set threshold.

- 2) The financial service providers should consider incentivizing customers who use electronic platforms for payments.

8.2 Use of Gatekeepers

In 2019, the Centre continued to observe a trend in which the Gatekeepers' services were exploited for illegal activities. In the case of some identified accountants, this included use of falsified financial statements to place funds in offshore centers and to tender for public procurement projects. Bank accounts for some identified law firms and their clients are used to launder proceeds of crime.

The Centre has collaborated with professional bodies such as LAZ and ZICA with a view to improve the AML/CFTP framework among their membership. This has resulted in members requesting for training to build capacity. It also led to signing of a MOU with ZICA in 2019 and the designation of compliance officers by some of the reporting entities supervised by the two professional bodies.

Recommendations

- i. LAZ and ZICA should effectively supervise lawyers and accountants for AML/CFTP.
- ii. Financial service providers, in particular banks should effectively monitor accounts and transactions by conducting enhanced due diligence on high risk customers in the DNFBP sector.

9.0 CONCLUSION

The 2019 Trends Report has highlighted pertinent recommendations that require adoption and implementation by LEAS and other stakeholders. It is our considered view that in order to effectively fight money laundering and other financial crimes, stakeholders in the value chain should collaborate in the exchange of information, investigations, prosecutions and forfeiture of proceeds

of crime. The FIC looks forward to working with all stakeholders to ensure that our financial system is not abused by perpetrators of crime.

For further details on the activities of the Centre, stakeholders may visit the FIC website at www.fic.gov.zm

APPENDICES

APPENDIX 1: Nature of Suspensions reported by number and value

Reason for Suspicion	No. of Reports	Amount (ZMW) millions	No. of Reports	Amount (ZMW) millions	No. of Reports	Amount (ZMW) millions
	2019		2018		2017	
Large or unusual cash deposit	196	534	186	103	337	182
Activity inconsistent with customer profile	108	104	162	143	156	108
Large or unusual inward remittance	91	205	48	165	52	222
Person - Suspicious Behavior	59	47	146	85	185	89
Large or unusual cash withdrawals	50	25	9	3	10	3
Unusual business practices	32	57	26	40.4	16	20
Fraud	31	625	31	7	47	26
Many third parties making deposits into the account	31	9	11	3.4	8	2
Irregular or Unusual international banking activity	30	174	15	14.3	33	43.4
Unusually large foreign currency transaction	28	11.1	11	72	17	10.2

Reason for Suspicion	No. of Reports	Amount (ZMW) millions	No. of Reports	Amount (ZMW) millions	No. of Reports	Amount (ZMW) millions
	2019		2018		2017	
Large or unusual outward remittance	24	187.1	27	131	68	221.1
Avoiding reporting obligations	23	16	14	259.1	16	3
Sudden unexpected activity on previous dormant	16	417.4	0	0	5	2
Phishing (Electronic Fraud)	9	1	11	0	0	-
Watch listed individual/organization	8	0	10	0	19	-
Other	12	2.5	17	1	0	-
Totals	748	2,415	724	1027.1	969	931.7

Source: Financial Intelligence Centre, Zambia- 2019

APPENDIX 2: Status of Compliance Officers (COs) of Reporting Entities (REs) approved by the Centre by year

Name of Sector	2019		2018		2017	
	No. of RE	No. of CO	No. of RE	No. of CO	No. of RE	No. of CO
Pensions and Insurance	80	15	76	9	76	3
Commercial Banks	19	18	17	17	19	18
Payment Systems Business- Money Value Transfers (MVTs) Providers	25	4	25	2	23	1
Non-Bank Financial Institutions (NBFIs)	41	16	44	11	44	5
Securities and Exchange Commission Licensees	31	3	35	3	35	0
Bureau De Change	76	19	73	0	73	0
Casinos	30	8	46	6	46	0
Law Firms	193	3	193	3	193	0
Motor Vehicle Dealers	31	2	31	1	31	0
Dealers in Precious Stones and Metals	1793	0	1793	0	618	0
Real Estate Agents	30	10	64	10	64	0
Accounting/Audit Firms	100	2	120	2	167	2
Total Number	2449	100	2517	65	1389	32

Source: Financial Intelligence Centre, Zambia- 2019

WORKING DEFINITIONS

Competent Authority- refers to all public authorities with designated responsibilities for combating money laundering and/or terrorist financing. In particular, this includes the FIU; the authorities that have the function of investigating and/or prosecuting money laundering, associated predicate offences and terrorist financing, and seizing/freezing and confiscating criminal assets; authorities receiving reports on cross-border transportation of currency & BNIs; and authorities that have AML/CFT supervisory or monitoring responsibilities aimed at ensuring compliance by financial institutions and DNFBPs with AML/CFT requirements.

Corruption- According to section (2) of the Anti-Corruption Act No.3 of 2012, 'corrupt' means the soliciting, accepting, obtaining, giving, promising or offering of a gratification by way of a bribe or other personal temptation or inducement or the misuse or abuse of public office for advantage or benefit for oneself or another person, and " corruption" shall be construed accordingly.

ESAAMLG- one of the styled regional bodies under the Financial Action Task Force.

FATF- FATF is an inter-governmental body which sets standards and develops and promotes policies to combat money laundering and terrorist financing.

Gatekeepers- Professionals such as lawyers, notaries, accountants, investment advisors, and trust and company service providers who assist in transactions involving the movement of money, and are deemed to have a particular role in identifying, preventing and reporting money laundering. Some countries impose due diligence requirements on gatekeepers that are similar to those of financial institutions.

Money Laundering- According to section 2 of the Prohibition and Prevention of Money Laundering Act No.14 of 2001 (as amended), **Money Laundering means**

where a reasonable inference may be drawn, having regard to the objective factual circumstances, any activity by a person -

a) who knows or has reason to believe that the property is the proceeds of a crime; or

b) without reasonable excuse, fails to take reasonable steps to ascertain whether or not the property is proceeds of a crime; where the person-

(i) engages, directly or indirectly, in a transaction that involves proceeds of a crime;

(ii) acquires, receives, possesses, disguises, transfers, converts, exchanges, carries, disposes, uses, removes from or brings into Zambia proceeds of a crime; or

(iii) conceals, disguises or impedes the establishment of the true nature, origin, location, movement, disposition, title of, rights with respect to, or ownership of, proceeds of crime";

Mutual Evaluation - mutual evaluation is an assessment of a country's measures undertaken to combat money laundering and the financing of terrorism and proliferation of weapons of mass destruction. This includes an assessment of a country's actions to address the risks emanating from designated terrorists or terrorist organisations.

MVTS- Money or value transfer services (MVTS) refers to financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. Transactions performed by such services can involve one or more intermediaries and a final payment to a third party, and may include any new payment methods. Sometimes these services have ties to particular geographic regions and are described using a variety of specific terms, including hawala, hundi, and fei-chen.

Predicate offences- According to FATF, predicate offences are specified "unlawful activities" whose proceeds, if involved in the subject transaction, can give rise to prosecution for money laundering.

Proliferation Financing- Section 2 of the National Anti-Terrorism and Proliferation Act No.6 of 2018 act defines Proliferation Financing as an act by any person who by any means, directly or indirectly, willfully or negligently provides funds or financial services to be used or knowing that they are to be used in whole or in part for proliferation, the manufacture, acquisition, possession, development, export, transshipment, brokering, transport, transfer, stockpiling, supply, sale or use of nuclear, ballistic, chemical, radiological or biological weapons or any other weapon capable of causing mass destruction and their means of delivery and related materials including both technologies and dual-use goods used for non-legitimate purposes, including technology, goods, software, services or expertise, in contravention of this Act or, where applicable, international obligations derived from relevant Security Council Resolutions;

Financing of Terrorism - Section 2 of the National Anti-Terrorism and Proliferation Act No.6 of 2018 act defines Financing of Terrorism an act by any person who, irrespective of whether a terrorist act occurs, by any means, directly or indirectly, wilfully provides or collects funds or attempts to do so with the intention that the funds should be used or knowing that the funds are to be used in full or in part—
(i) to carry out a terrorist act; (ii) by a terrorist; (iii) by a terrorist organisation; or
(iv) for the travel of a person to a State other than the person's State of residence or nationality for the purpose of perpetration, planning or preparation of, or participation in, terrorist act or the providing or receiving of terrorist training.