



Financial  
Intelligence Centre

# **Working Group on the Audit of Extractive Industries**

## **Illicit Financial Flows: South Africa**

Pieter Alberts  
Monitoring and Analysis

Date: 25 September 2018

# PRESENTATION OUTLINE

## General Background

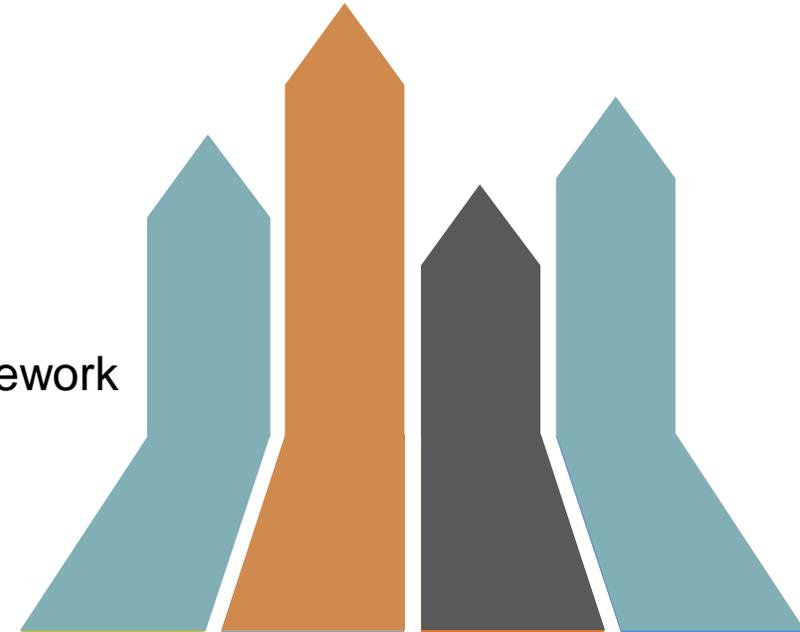
- Conceptual framework on Illicit Financial Flows (IFFs)
- Global Perspective
- Regional Perspective
- Domestic Perspective
  - Anti-Money Laundering/Counter Terrorism Funding – framework
- Operational Intervention – Inter-Agency Working Group

## FIC's contribution

- The FIC and why do IFFs concern it
- Industries vulnerable to money laundering
- Stakeholders
- Case studies

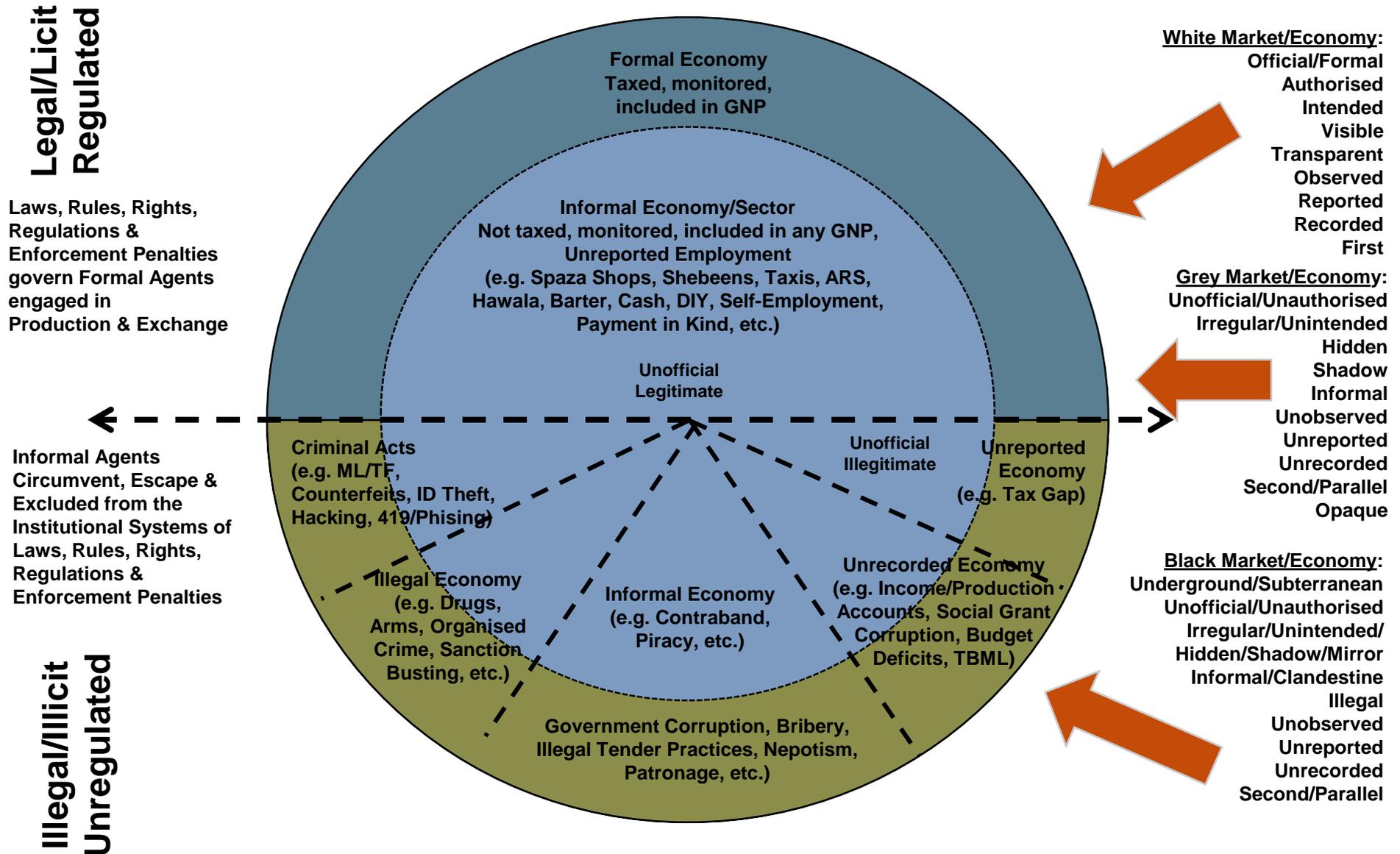
## Historic contribution - Statistical information

## Way forward



# CONCEPTUAL FRAMEWORK ON ILLICIT FINANCIAL FLOWS

# Background: Conceptual Framework on IFF



# What is money laundering?

Money laundering is about taking dirty money - disguising where it comes from (criminal activities) - and using it for legal and/or illegal activities



## STAGES OF MONEY LAUNDERING

### — 1 — PLACEMENT

Criminals deposit illicit money into bank accounts

Buy high-end goods with illicit cash

Break up large amounts of illicit cash & deposit it into smaller amounts over time

Gamble with proceeds

Think of a **HOT** potato... It (funds) needs to be put down (placed) so you don't burn your hands



### — 2 — LAYERING

Criminals need to create distance between proceeds of crime & those involved in the source of proceeds

Buy & resell high-end goods

Buy bonds, invest in legitimate businesses, invest in property

The **HOT** potato (funds) is thrown from person to person (distancing yourself from it)



### — 3 — INTEGRATION

Proceeds are now fully part of the financial system

Criminals are free to buy more luxury items and deepen the spread of proceeds

Criminals may look to grow proceeds seeking legitimate or illegal investment opportunities

The **HOT** potato (funds) is now cooled (funds laundered) and criminals can enjoy their proceeds



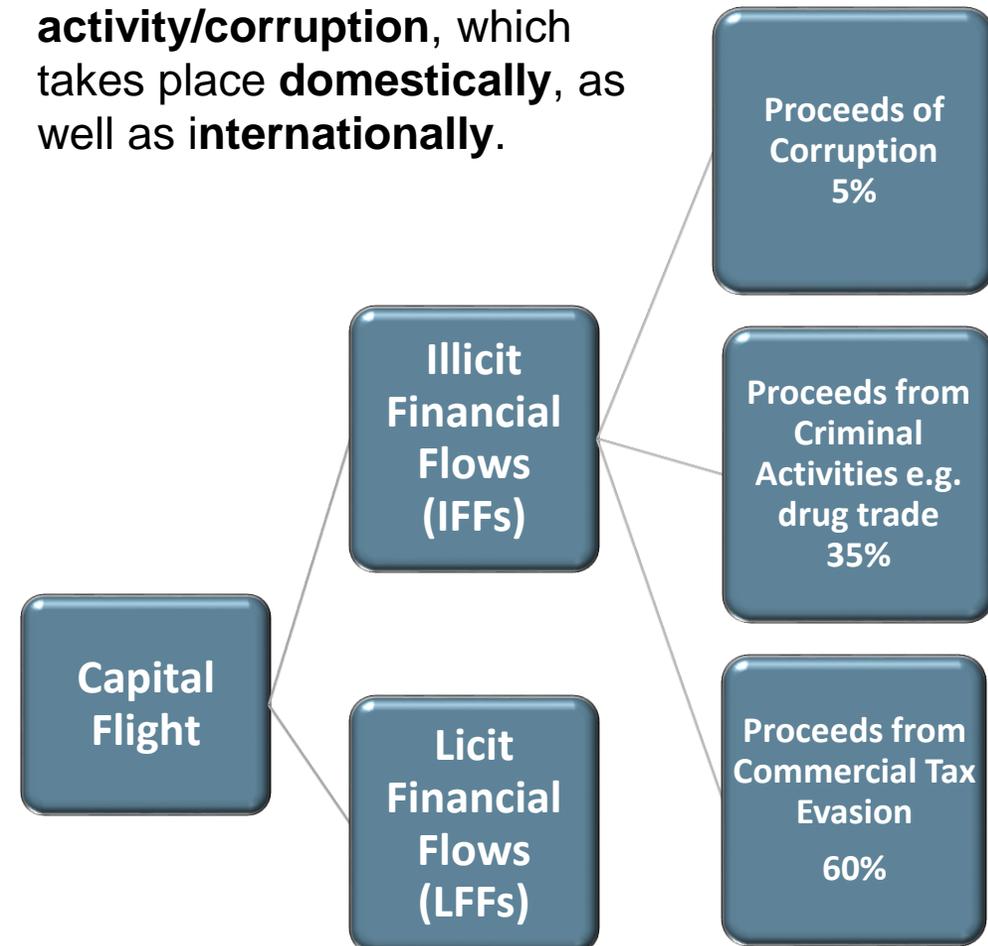
The FIC use analysis to determine a specific link between the property/money, etc. and the unlawful activity

# What are IFFs: Definition

## Defining Illicit Financial Flows

- Dev Kar, lead economist at *Global Financial Integrity (GFI)*, defines IFF or illicit money as “money that is illegally earned, transferred, or utilised. Somewhere at its origin, movement, or use, the money broke laws and hence it is considered illicit.”
- *United Nations Development Programme (UNDP)*, definition: “include, but are not limited to, cross-border transfers of the proceeds of tax evasion, corruption, trade in contraband goods, and criminal activities such as drug trafficking and counterfeiting.”
- In **extractive sectors**, these flows mostly originate from *corruption, illegal resource exploitation and tax evasion (including smuggling and transfer mispricing)*.

- IFFs are understood as the **international flow** component of **illegal activity/corruption**, which takes place **domestically**, as well as **internationally**.

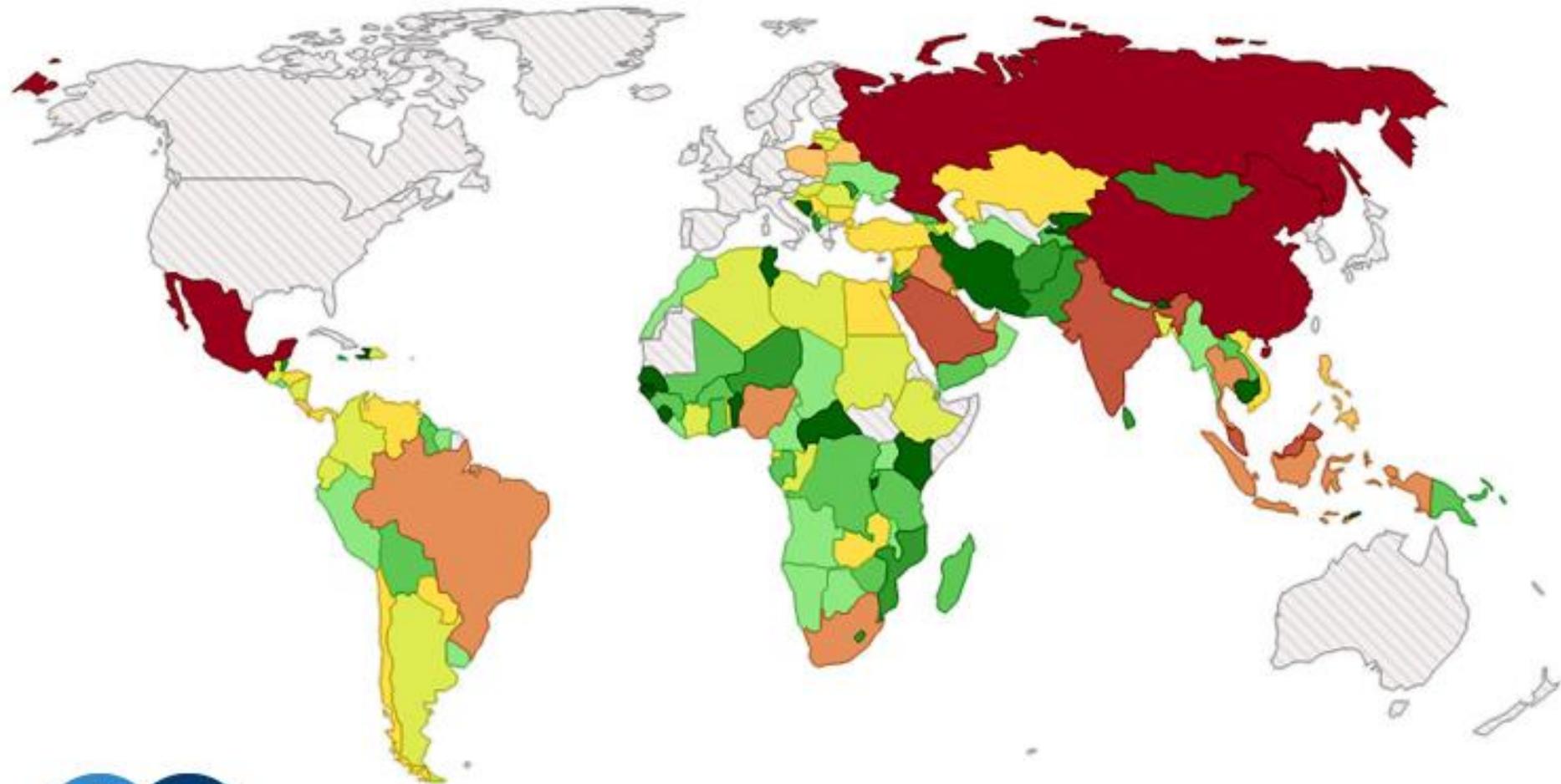




# GLOBAL PERSPECTIVE ON ILLICIT FINANCIAL FLOWS

# GLOBAL PERSPECTIVE: Average Annual Illicit Financial Outflows: 2003-2012

(in millions of U.S. dollars, nominal)

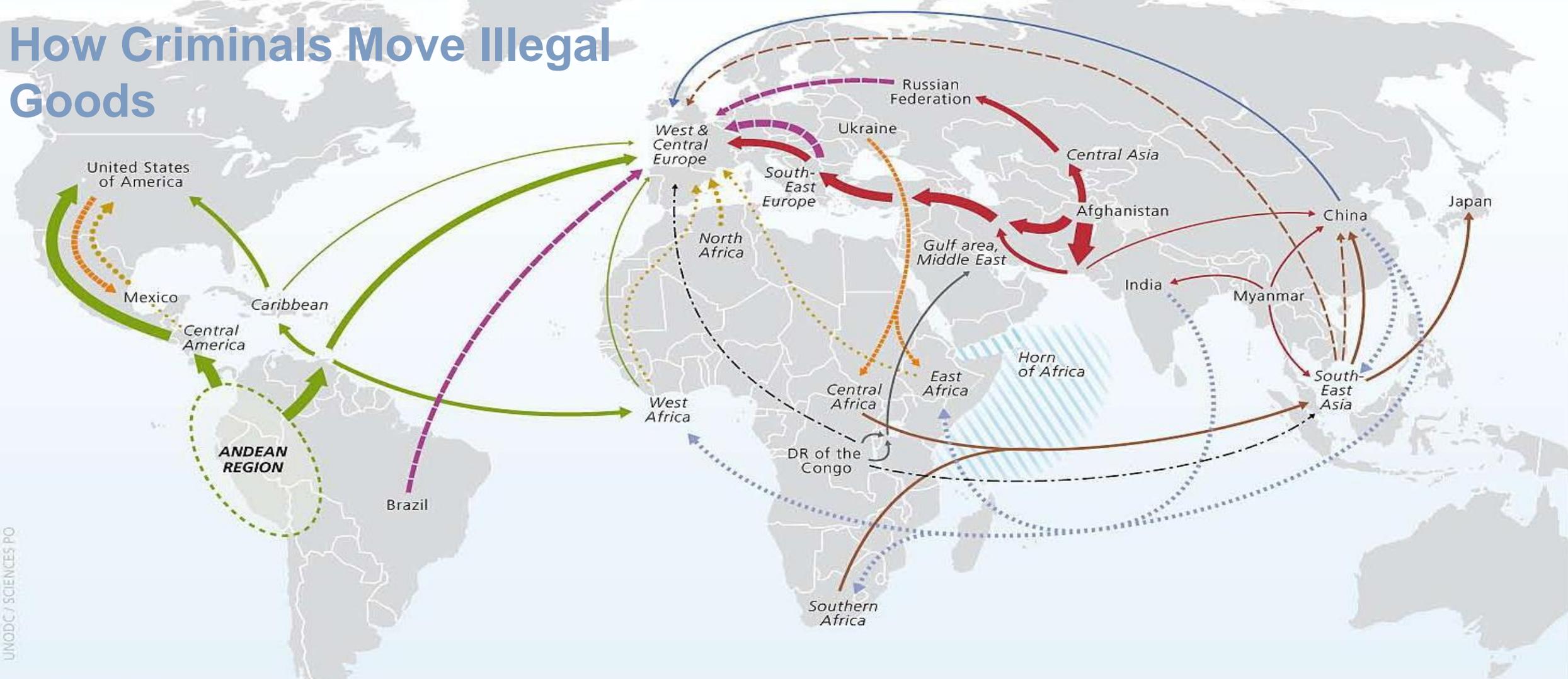


GLOBAL FINANCIAL INTEGRITY

Average Annual Illicit Outflows: 2003-2012



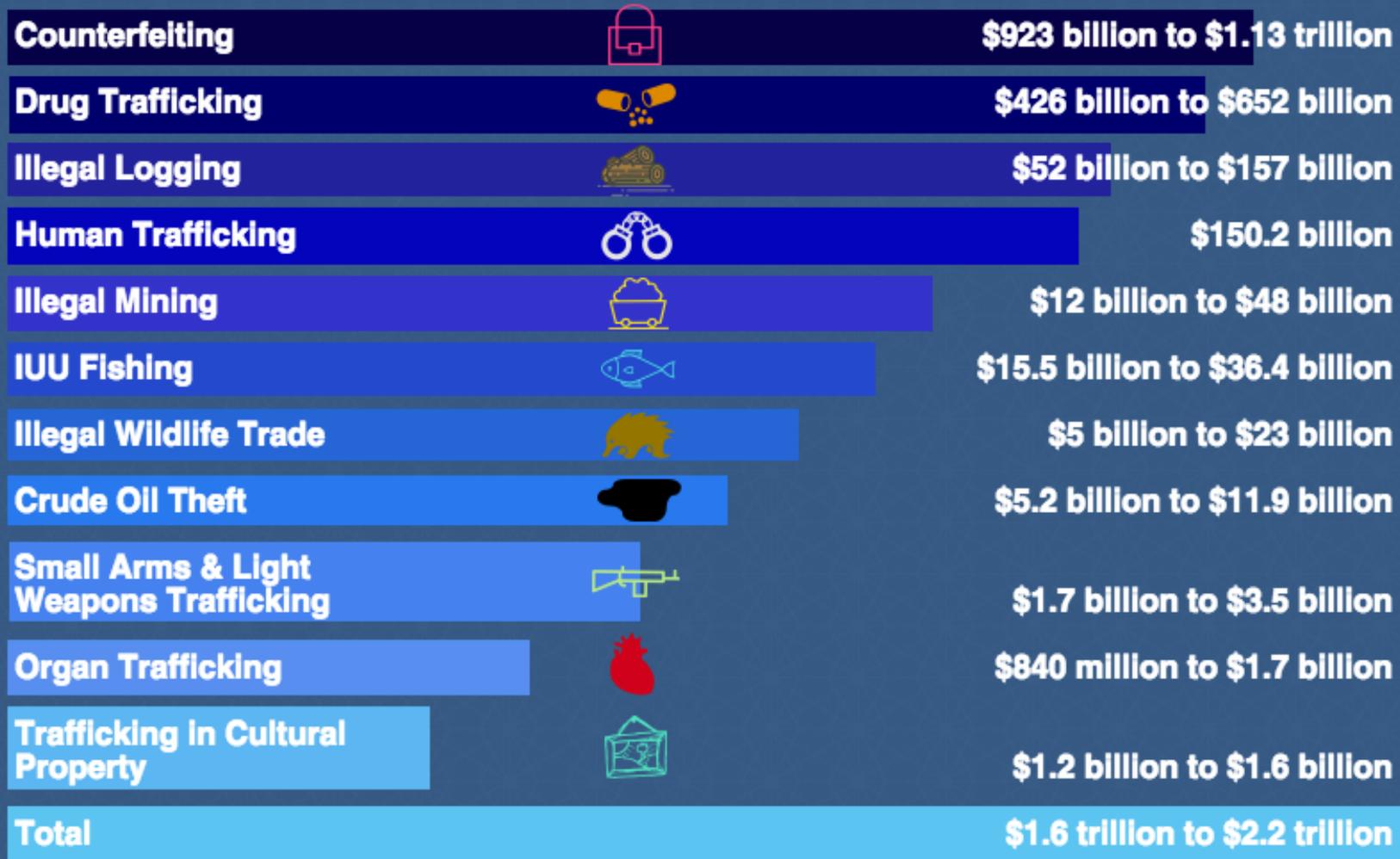
# How Criminals Move Illegal Goods



Source: UNODC

- |          |                                           |                               |             |
|----------|-------------------------------------------|-------------------------------|-------------|
| Heroin   | Smuggling of migrants                     | Counterfeit medicines         | Timber      |
| Cocaine  | Female trafficking victims (main sources) | Piracy off the Horn of Africa | Gold        |
| Firearms | Counterfeit consumer goods                | Wildlife                      | Cassiterite |

# The Retail Value of Transnational Crime



Source: *Transnational Crime and the Developing World*



## Transnational Crime and the Developing World



Channing May  
March 2017



## Illicit Financial Flows to and from Developing Countries: 2005-2014



Global Financial Integrity  
April 2017



Financial Intelligence Centre

Source: Global Financial Integrity (GFI): <http://www.gfintegrity.org/> (published in March 2017)



# REGIONAL PERSPECTIVE ON ILLICIT FINANCIAL FLOWS

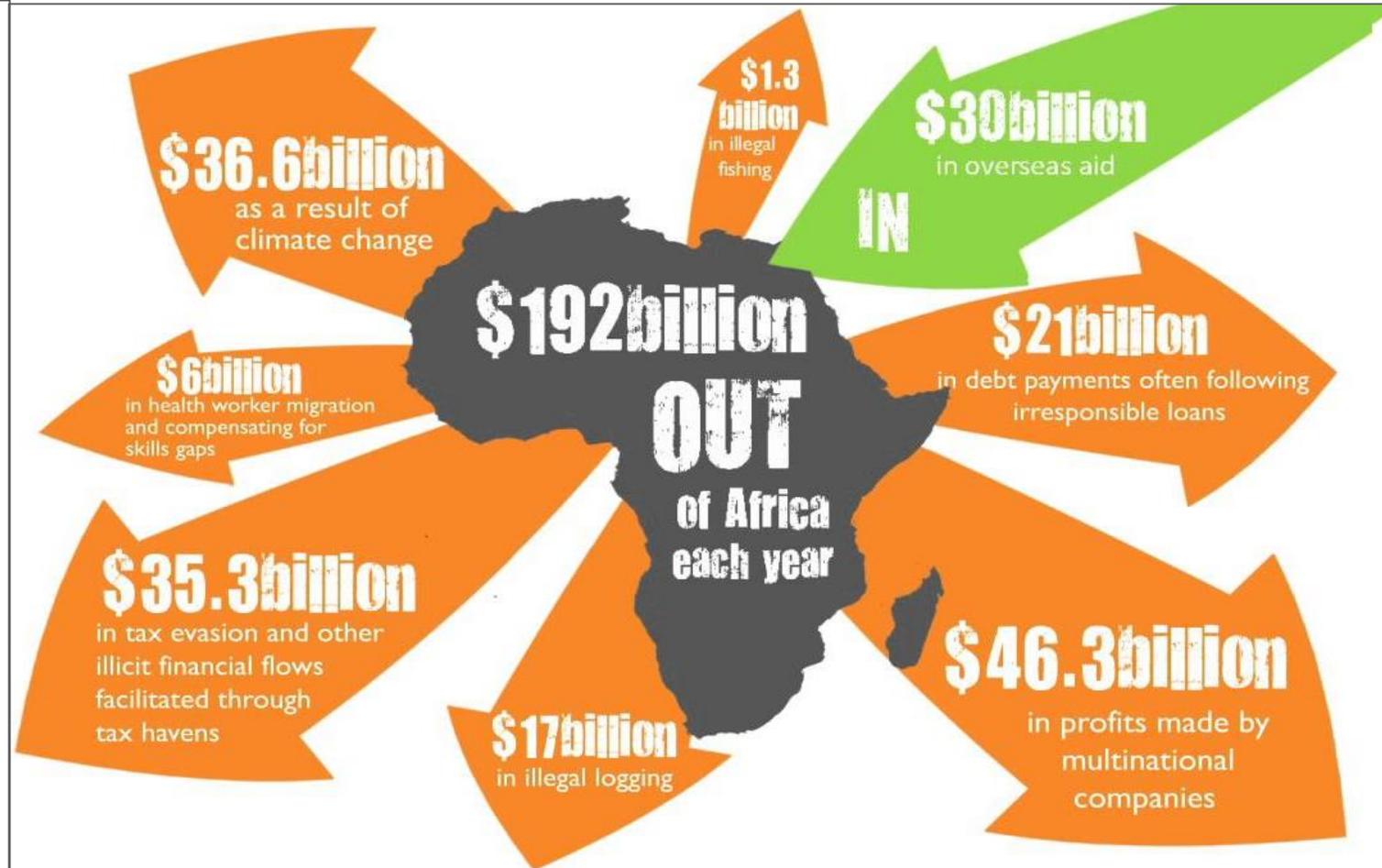
# Illicit Capital Flight from Africa

- \$46.3 billion in profits made by multinational companies
- \$21 billion in debt payments, often following irresponsible loans
- \$35.3 billion in illicit financial flows facilitated by the global network of tax havens
- \$23.4 billion in foreign currency reserves given as loans to other governments
- \$17 billion in illegal logging
- \$1.3 billion in illegal fishing
- \$6 billion as a result of the migration of skilled workers from Africa
- \$10.6 billion to adapt to the effects of climate change that it did not cause
- \$26 billion to promote low carbon economic growth

If these financial outflows and costs are compared with inflows into Africa, the result is a net annual loss of \$58.2 billion.

This is over one and half times the amount of additional money needed to deliver affordable health care to everyone in the world.

If the rest of the world continues to raid Africa at the same rate, \$580 billion will be taken from the African people over the next ten years (2014).



Source: <https://www.healthpovertyaction.org>

# United Nations Economic Commission for Africa (UNECA) High-Level Panel on IFF: Chaired by former President Thabo Mbeki: Findings

1. IFFs are large and increasing
2. Ending IFFs is a political issue
3. Transparency is key across all aspects of IFFs
4. Commercial routes of IFFs need closer monitoring
5. The **dependence of African countries on natural resources extraction** makes them vulnerable to illicit financial flows
6. New and innovative means of generating IFFs are emerging
7. Tax incentives are not usually guided by cost-benefit analyses
8. Corruption and abuse of entrusted power
9. More effort needed in asset recovery and repatriation
10. Money laundering continues to require attention
11. Weak national and regional capacities impede efforts to curb IFFs
12. Incomplete global architecture for tackling IFFs
13. Financial secrecy jurisdictions must come under closer scrutiny
14. Development partners have an important role in curbing IFFs
15. IFFs incorporated/better coordinated across UN processes/frameworks



Track it!  
**STOP IT!** Get it!™



Illicit Financial Flows

Report of the High Level Panel  
on ILLICIT Financial Flows from Africa

Coordinated by AFRICA Centre of Excellence in Tax, Policy and Finance, Botswana

Source: Report of the High Level Panel on Illicit Financial Flows from Africa, UNECA HLP, 25 February 2015

# DOMESTIC PERSPECTIVE ON ILLICIT FINANCIAL FLOWS

- STRATEGIC LEVEL
- OPERATIONAL LEVEL

# Anti-Money Laundering/Counter Terrorism Funding → Regime

**Money Laundering (ML)**  
Proceeds are acquired through criminal activities, through **placement, layering and integration** the source is disguised.

**Financing of Terrorism (TF)**  
The solicitation, collection and provision of funds to support terrorists, their acts and organisations. They want to conceal both the financing and the nature of the activity being financed.

Global

**Financial Action Task Force (FATF)**  
intergovernmental body focusing on combating ML and TF. It is a **policy making and standard setting** body (IMF and World Bank).



Domestic

**Financial Intelligence Centre Act (Act 38 of 2001) – [FICA]** established the FIC and placed obligations on financial institutions and other businesses deemed vulnerable to money laundering.

**The Prevention of Organised Crime Act (Act 121 of 1998) [POCA]** - Introduced the crime of ML and set the penalties associated with a conviction.

**The Protection of Constitutional Democracy Against Terrorist and Related Activities Act (Act 33 of 2004) [POCDATARA]** - Introduced measures to address the financing of acts of terrorism.

Client identification and verification (RBA) [s21]

Record keeping [s22]

Reporting [s28, 28A, S29]  
STRs, CTRs, TPRs

Risk Management Compliance Program (RBA) [s42]

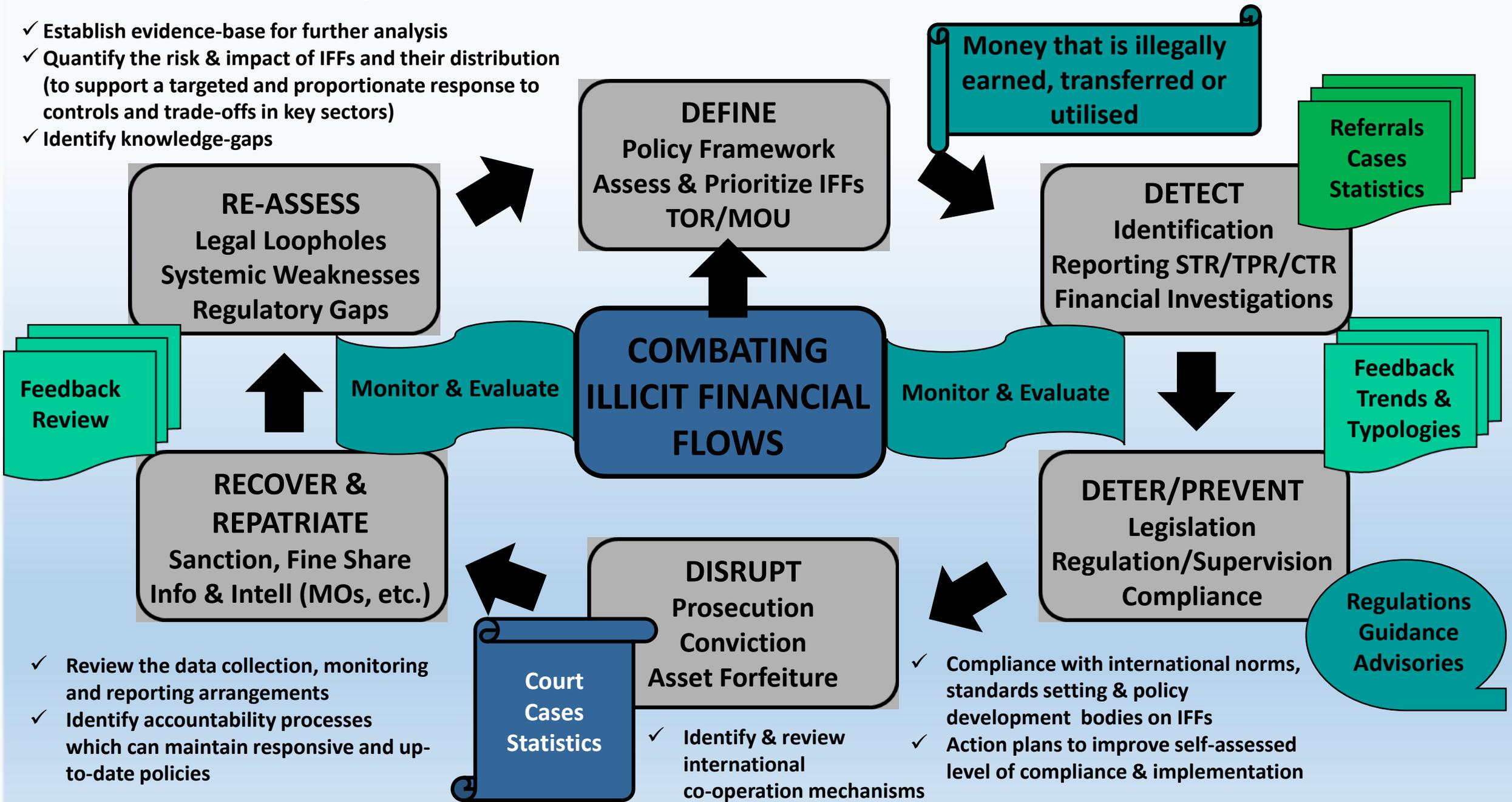
Competent person to ensure effective compliance [s42A]

Ongoing training of employees [s43]

Registration with FIC AI; RI - [s43B]

# National Policy Framework to Combat Illicit Financial Flows Value Chain

- ✓ Establish evidence-base for further analysis
- ✓ Quantify the risk & impact of IFFs and their distribution (to support a targeted and proportionate response to controls and trade-offs in key sectors)
- ✓ Identify knowledge-gaps





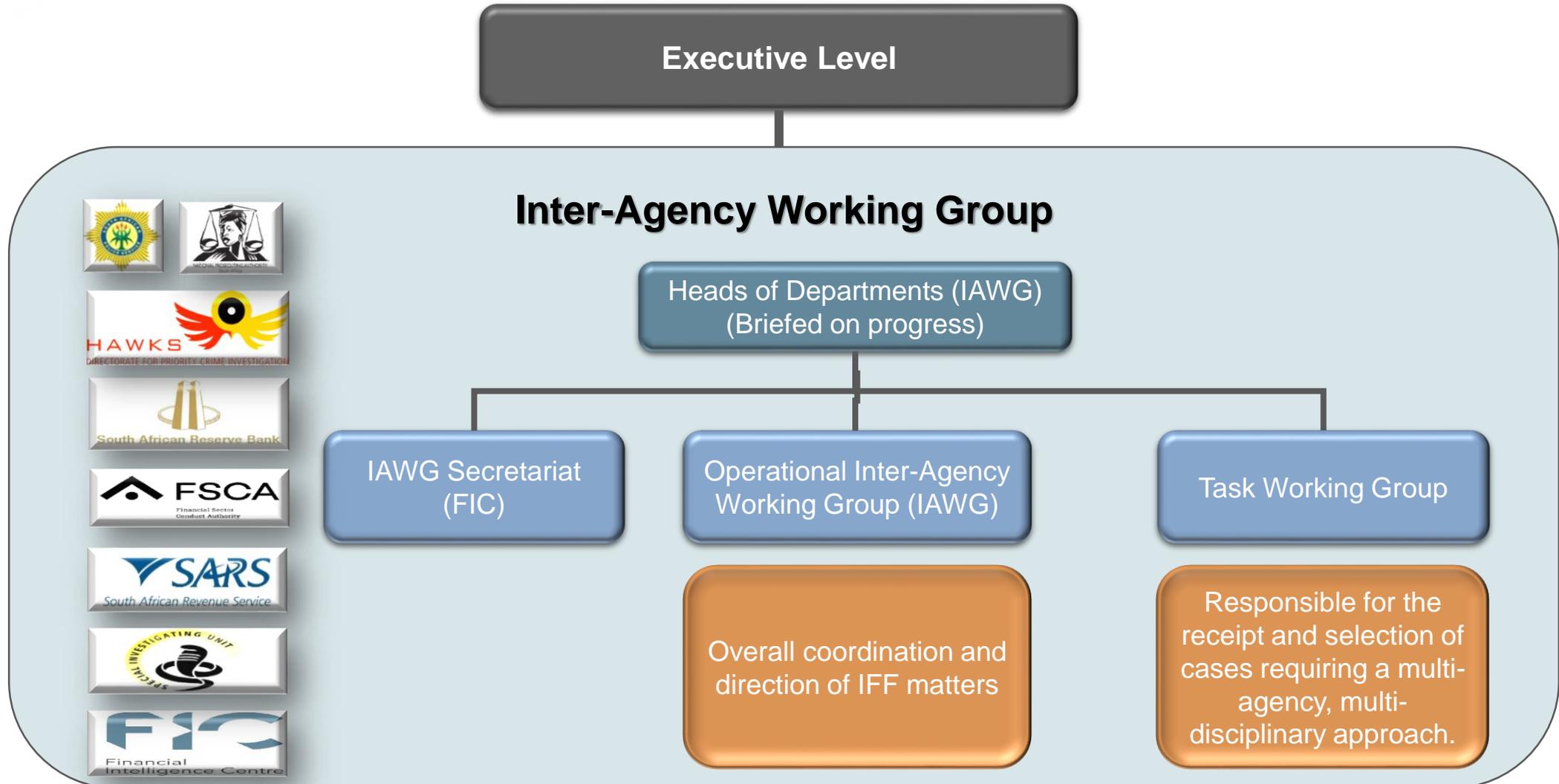
# OPERATIONAL INTERVENTION:

## *Background: Inter-Agency Working Group on IFFs*

# *Background: Inter-Agency Working Group on IFFs*

- Subsequent to the **parliamentary hearing** of May 2017 relating to Illicit Financial Flows (IFFs), the Financial Intelligence Centre (FIC) called a meeting of the various relevant Government Agencies to create a coordinating forum on IFFs.
- At the parliamentary hearing **concerns** were raised about the inconsistencies in statistics from various role players.
- There was a call for **coordination** of efforts dealing with IFFs.
- In February 2018 the Terms of Reference (TOR) for the coordinating forum was drafted and approved, resulting in the **Inter-Agency Working Group on IFFs**.

# Establishment of the IAWG: Operational Coordination & Focus



# IAWG - Case Selection Criteria

## Adopted Working Definition (as adopted by the IAWG-IFF)

*An Illicit Financial Flow (IFF) is defined as the illegal movement of money or capital from one country to another when funds are illegally earned, transferred and/or utilised.*

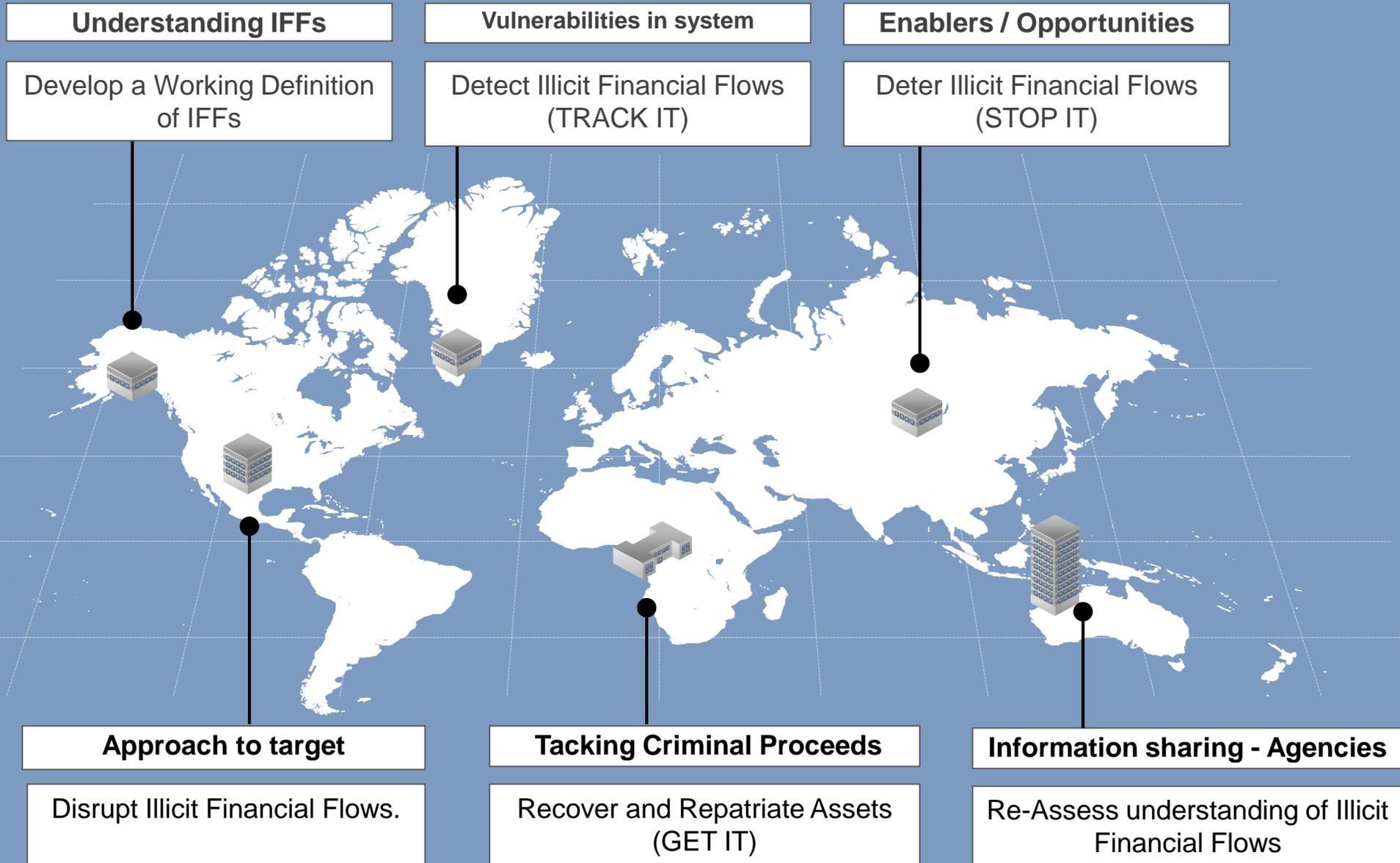
This definition therefore covers various aspects in relation to the flow of funds:

- **Illegally earned money** (e.g. proceeds of drug trafficking, fraud or theft). This will fall within the legislative framework relating to proceeds of crime – POCA.
- **Legally earned money**, but illegally transferred. This falls within the legislative framework relating to Exchange Control and would typically relate to fraudulent documentation being presented, or non-declaration of cash in the case of “cash mules”.

## Case Selection Criteria [for Inter-Agency Collaboration beyond BUSINESS AS USUAL ]

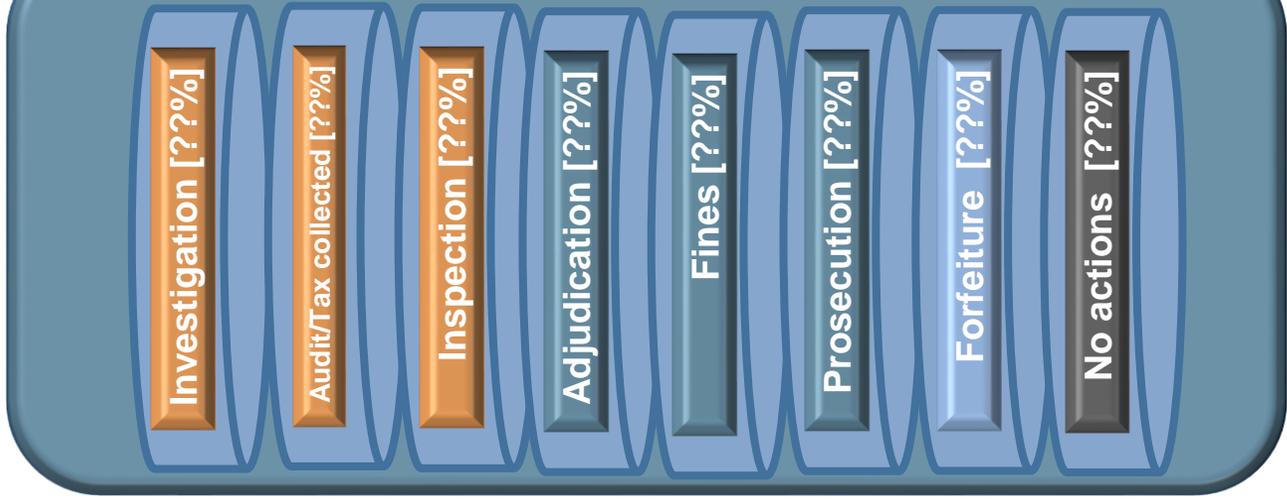
- Cases must fall within the definition of IFFs;
- Minimum financial threshold of R100 million;
- Minimum of three investigative agencies involved; and
- Any other significant matter (which may fall outside of the above case selection criteria).

# NATIONAL STRATEGIC - THREAT PICTURE ON IFFs



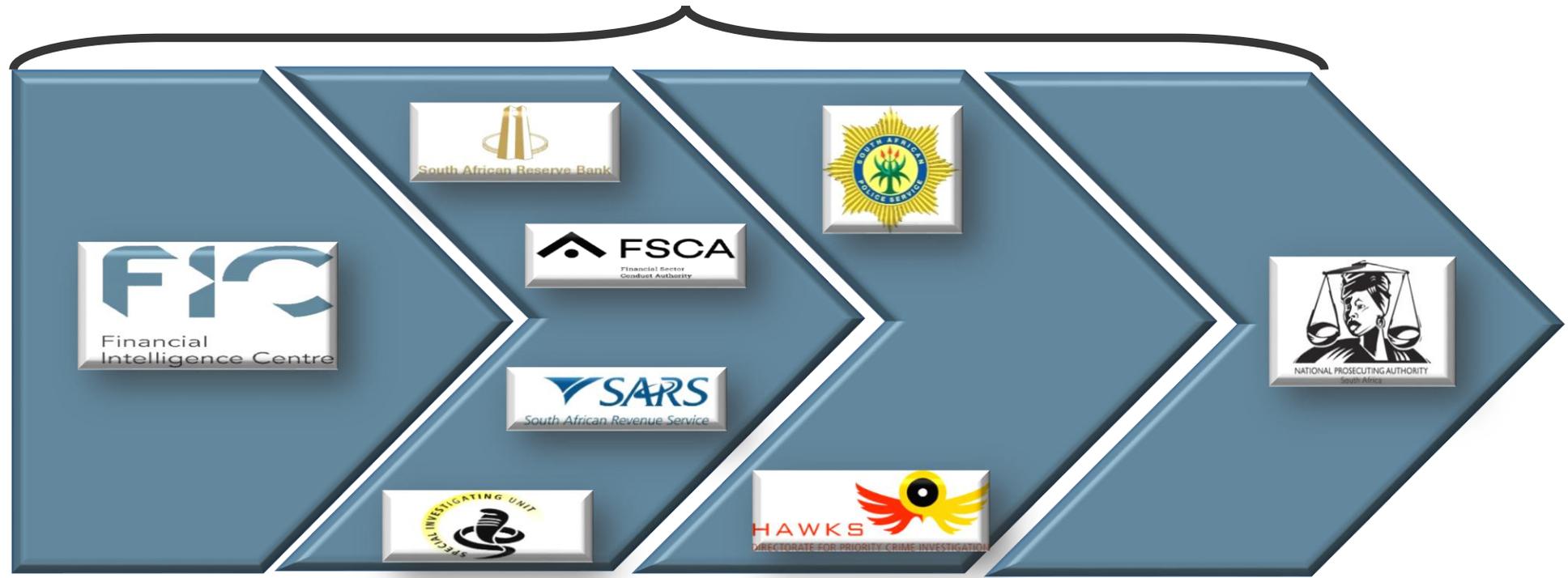
Note: This Strategic Threat Picture will feed into the National Risk Assessment (NRA).

# Central Repository relating to Statistics for investigations



## Requirements

- Secure communication
- All agencies to submit data to update on the case/s
- Create an Alert Service
- Create a central repository/database
- Search capabilities on central repository/database
- The central repository/database will have certain statistical elements
- Dashboards to visualise data
- User rights - access/read/ write



Input Reports/Analysis

Processing Administrative

Processing Investigation

Outcome Prosecuting/Recovery

# THE FIC AND WHY DO IFFs CONCERN IT

# Industry sectors vulnerable to Money Laundering and Terror Financing? (CATEGORIES OF ENTITIES & OBLIGATIONS in terms of FICA)

## Schedule 1 - Accountable Institutions

- Banks
- Attorneys
- Estate Agents
- Gambling Institutions
- Financial Advisors
- Long Terms

## Schedule 2 – Supervisory Bodies

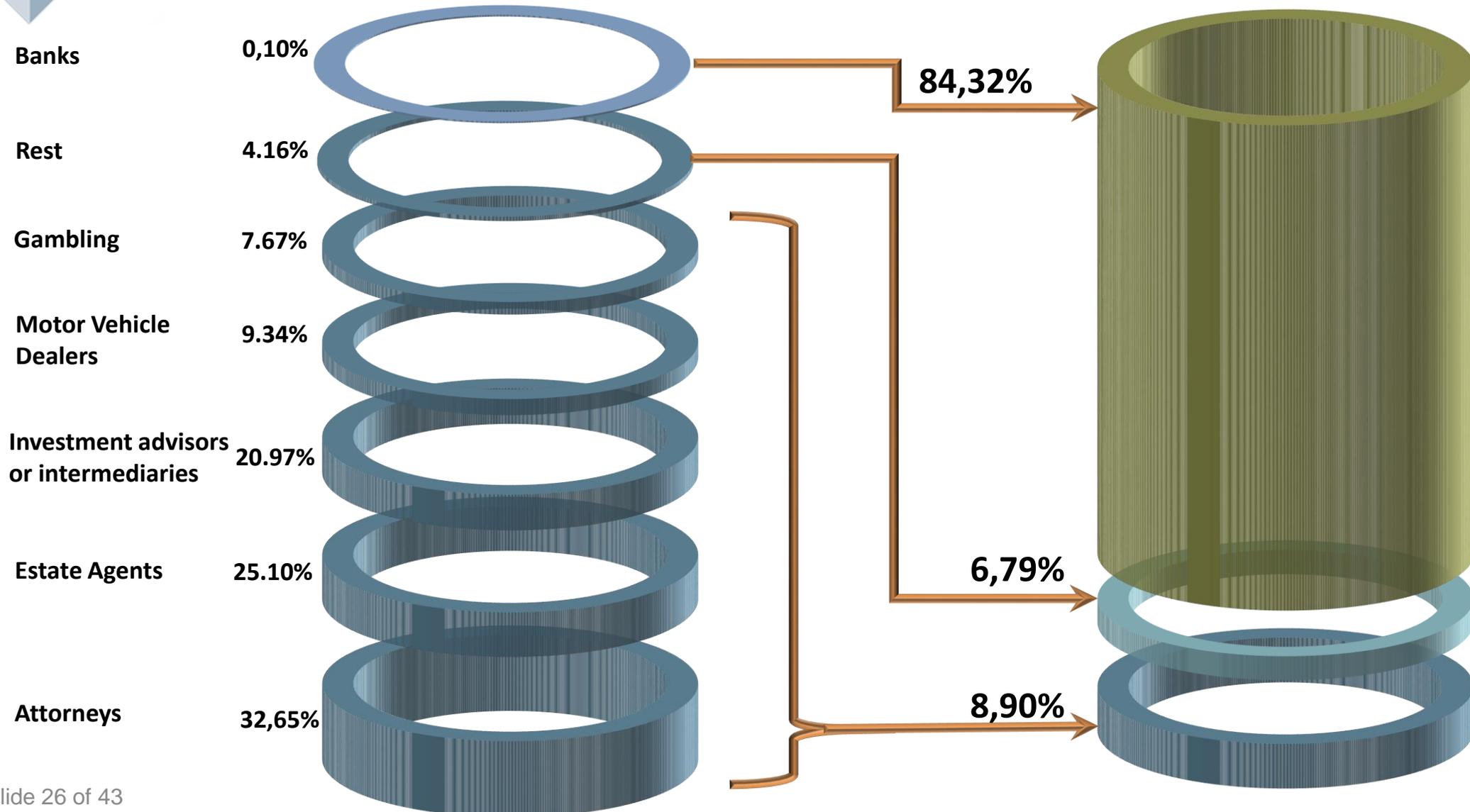
- Reserve Bank
- Financial Sector Conduct Authority (FSCA)
- Law Societies
- Estate Agency Affairs Board

Business?

## Schedule 3 – Reporting Institutions

- Motor vehicle dealers
- Gold coin dealers

# Scheduled reporting entities vs statutory reporting



# The FIC and why do IFFs concern it

Monitors and gives guidance to accountable and reporting institutions.

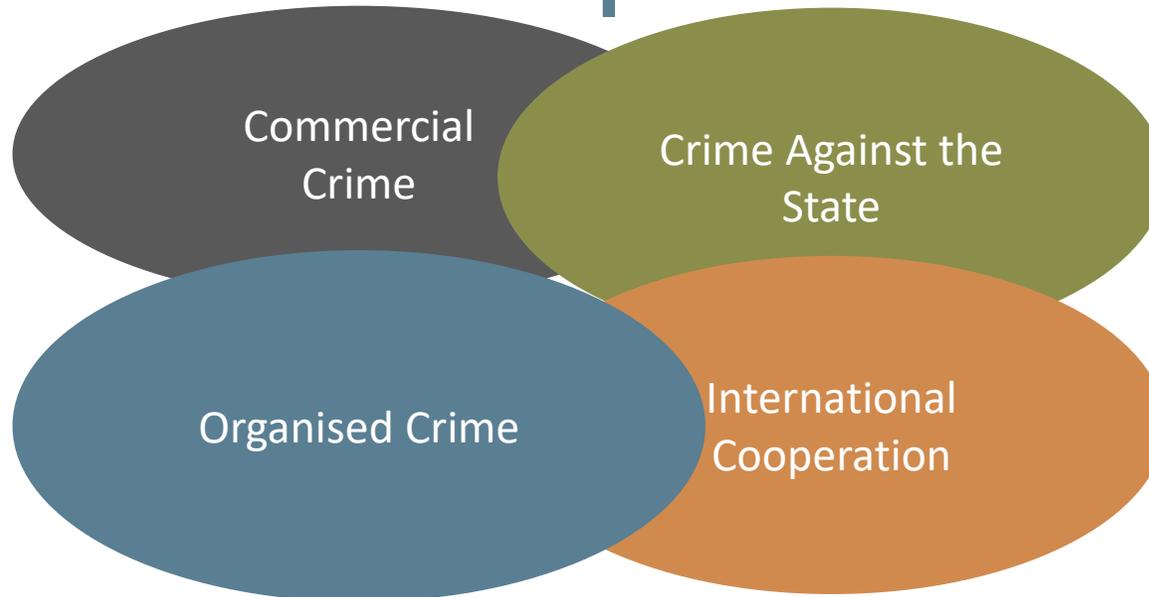
Receive, processes and analyse transactional data to develop financial intelligence products

This is made available to stakeholders to facilitate the administration and enforcement of laws of RSA

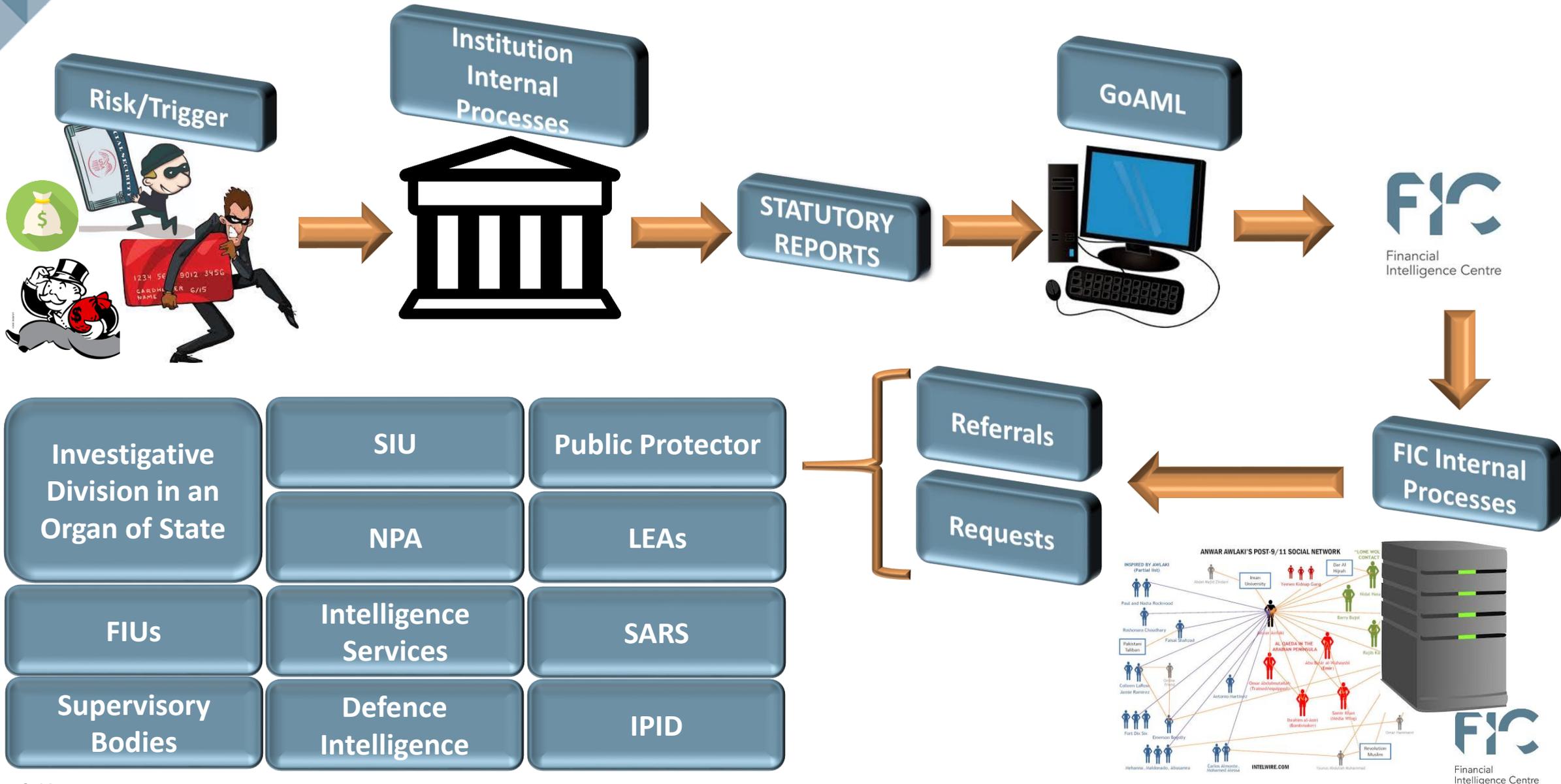
Exchanges information with similar bodies in other countries.

Assist in the identification of the proceeds of unlawful activities.

Assist in the combating of money laundering and terrorist financing activities

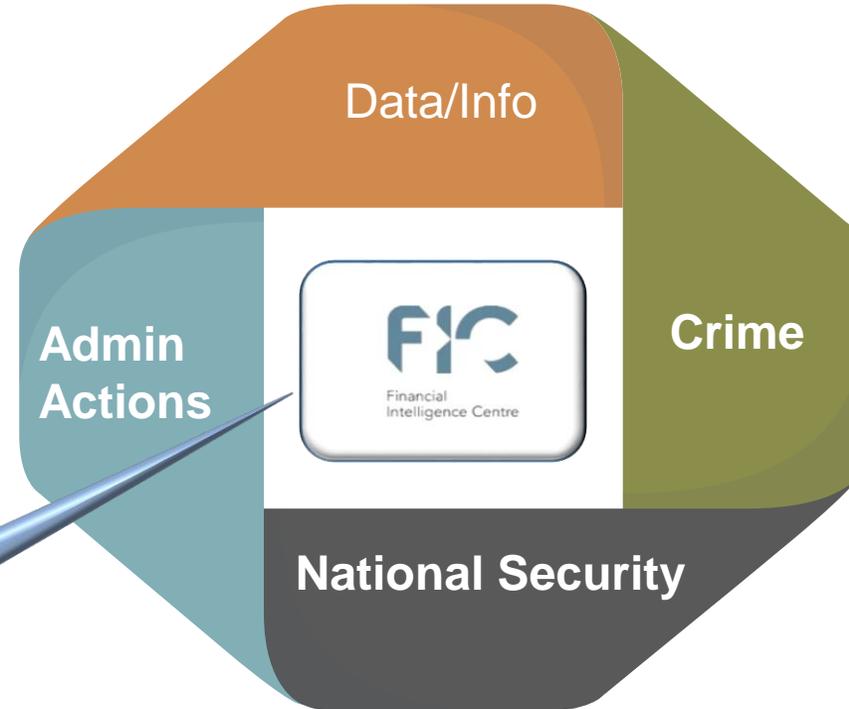


# Life cycle of a statutory report



# Stakeholders

- Accountable Institutions (AIs) and Reporting Institutions (RIs)
- Government Departments (CIPC, DHA, NT, SARB)
- Data Providers (Experian, Compuscan)
- SABRIC/SAFPS/SAICB



- South African Revenue Services (SARS)
- Special Investigating Unit (SIU)
- Public Protector (PP)
- Supervisory Bodies (SARB, FSB)
- National Treasury

Provide intelligence upon  
REQUEST or at the  
INITIATIVE of the FIC

- National Intelligence Coordinating Committee (NICOC)
- State Security Agency (SSA)
- Defence Intelligence
- Foreign FIUs (Egmont Group)
- DIRCO

- JCPS Cluster
- SA Police Service
  - General Detectives
  - Directorate Priority Crime Investigation (DPCI)
  - Crime Intelligence
- National Prosecuting Authority (NPA)
  - National Prosecuting Services (NPS)
  - Asset Forfeiture Unit (AFU)
- Independent Police Investigative Directorate (IPID)
- An investigative division in an organ of state
- An investigating authority
- Department of Environmental Affairs
- Department of Correctional Services (DCS)

# Case study: 1) Illicit Trafficking in Precious Metal and Illegal Mining



- The FIC contributed in a **project** that was addressing the illicit trafficking in precious metals and illegal mining operating in Gauteng.
- The specific syndicate **influenced** the various different illegal activities related to illicit gold market.
- Analysis of transactional records revealed regular small round amount **cash** deposits that were followed by cash withdrawals and transfers from business to personal accounts belonging to syndicate members.
- The proceeds of these illegal activities were used to buy **properties and vehicles**. Some of the proceeds were laundered through the business accounts.
- These deposits were made by illegal miners (**ZAMA ZAMAS**) selling and buying the illicit gold. The place of deposits indicated the **geographical** area of the operations of the syndicate.

## Indicators on Transactional Level

- ❖ Cash in and out of bank accounts. (where such deposits does not align with the primary declaration of source of income for the client.
- ❖ Personal bank account that received salary payments and cash deposits.
- ❖ Business bank accounts not reflecting **salaries or Revenue Services (SARS) payments**.

# Case study: 2) Proceeds laundered through casinos

## WHAT IS IT?

Trading in smuggled or illegally obtained precious metals and then laundering the proceeds by purchasing casino chips for future trading.

## HOW IT WORKS

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Use of casino chips as a medium of exchange for the illegitimate sale of precious metals.

## CASE STUDY

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### **PRECIOUS METALS AND GAMBLING**

A suspect was arrested at a roadblock and precious metals and a large amount of cash were found in his possession. The FIC was requested to perform analysis on the subject's financial profile. Enquiries by the FIC to the gambling industry revealed that the suspect made regular visits to a number of casinos where he bought gambling chips and used them as currency to pay syndicate members supplying him with illegal precious metals. Relevant accounts were monitored by the FIC, revealing further beneficiaries of the scheme for the SAPS to investigate.



## INDICATORS

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- Individuals cashing out gambling chips without gambling
- Holders of casino loyalty cards who frequently gamble without having bought any gambling chips
- Use of third parties to gamble proceeds through casinos.

# Case study: 3) Fraud – American property purchaser

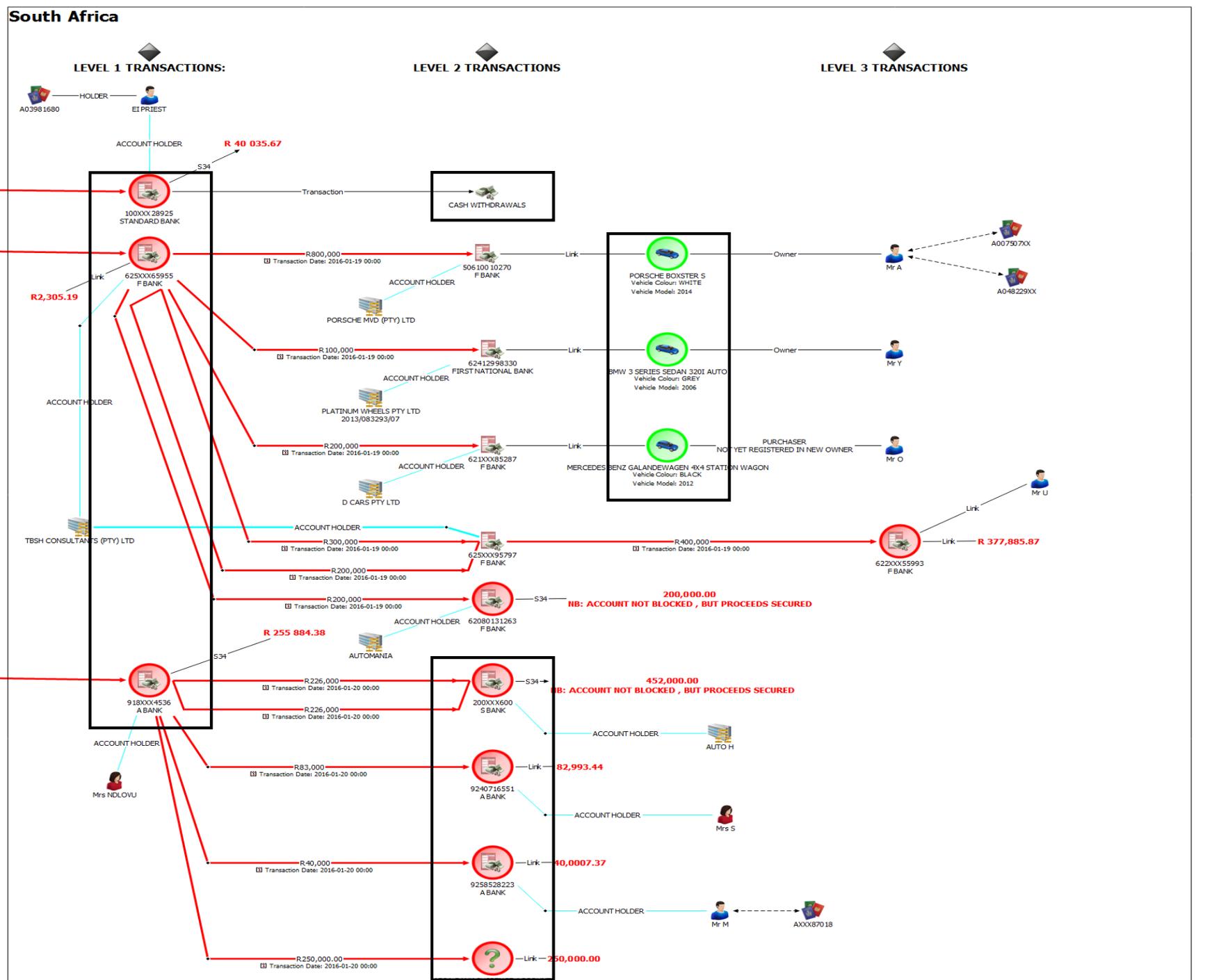
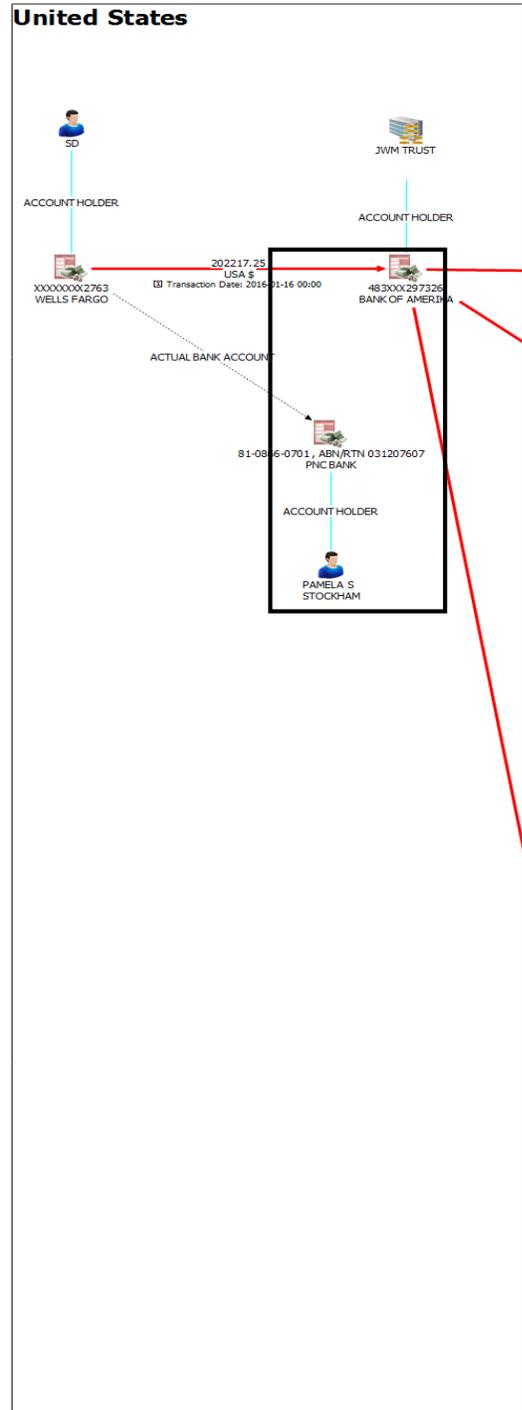


## United States of America (USA)

- The FIC was contacted by **FINCEN** to assist in a criminal investigation where an **US citizen** was defrauded by a Nigerian citizen based in SA.
- Information **shared** with the FIC indicated that the American was in the process of buying a property in the US.
- **Correspondence** linked to the payment was manipulated, bank account details were unlawfully changed and money was subsequently paid to a SA bank in three transfers.
- The victim suffered a loss US\$ 202,217 (**R2,7 million**)

## South Africa

- The FIC **gathered** and **analysed** relevant account opening information and bank statements, reconstructed how the money was laundered, identified proceeds and the ultimate beneficiary thereof.
- The FIC subsequently **froze** six accounts.
- The FIC also identified that three **luxury vehicles** (Porsche, Mercedes and BMW) were purchased with some of the proceeds.
- The Asset Forfeiture Unit used FIC **financial intelligence** to obtain preservation orders on all bank accounts and the 3 motor vehicles.
- The **cooperation** between all the stakeholders resulted in 93.33% of the funds initially stolen being recovered.



# Case study: 4) Fraud and money laundering

- The FIC received an alert from a **neighbouring jurisdiction** that a person was defrauded of a large amount of money that was transferred to a South Africa financial institution. Some funds were transferred to a cryptocurrency exchange and converted into a **basket of cryptocurrencies**, including Bitcoin. Some funds were irrecoverable because they were transferred to other cryptocurrency exchanges in foreign jurisdictions.
- The FIC froze some of the **virtual currency (Bitcoin, Bitcoin Cash and Ripple)** held with the cryptocurrency exchange using a section 34 directive. It also provided an affidavit that led to the Asset Forfeiture Unit obtaining a preservation order from the High Court in Johannesburg.
- To note:
  - Both addresses traced to BITTREX – exchange based in USA, Las Vegas
  - In 24 hours – R500,000.00 moved through 3 countries!



# Case Study: 5) Rhino poaching matter

The Hawks arrested two Chinese males and did a search and seizure at the residence of the suspects, resulting in the seizure of R112,000 in cash, **R18m worth of iTunes prepaid cards**, and items uniquely involved in the transnational movement of wildlife items and the transfer of illicit proceeds.



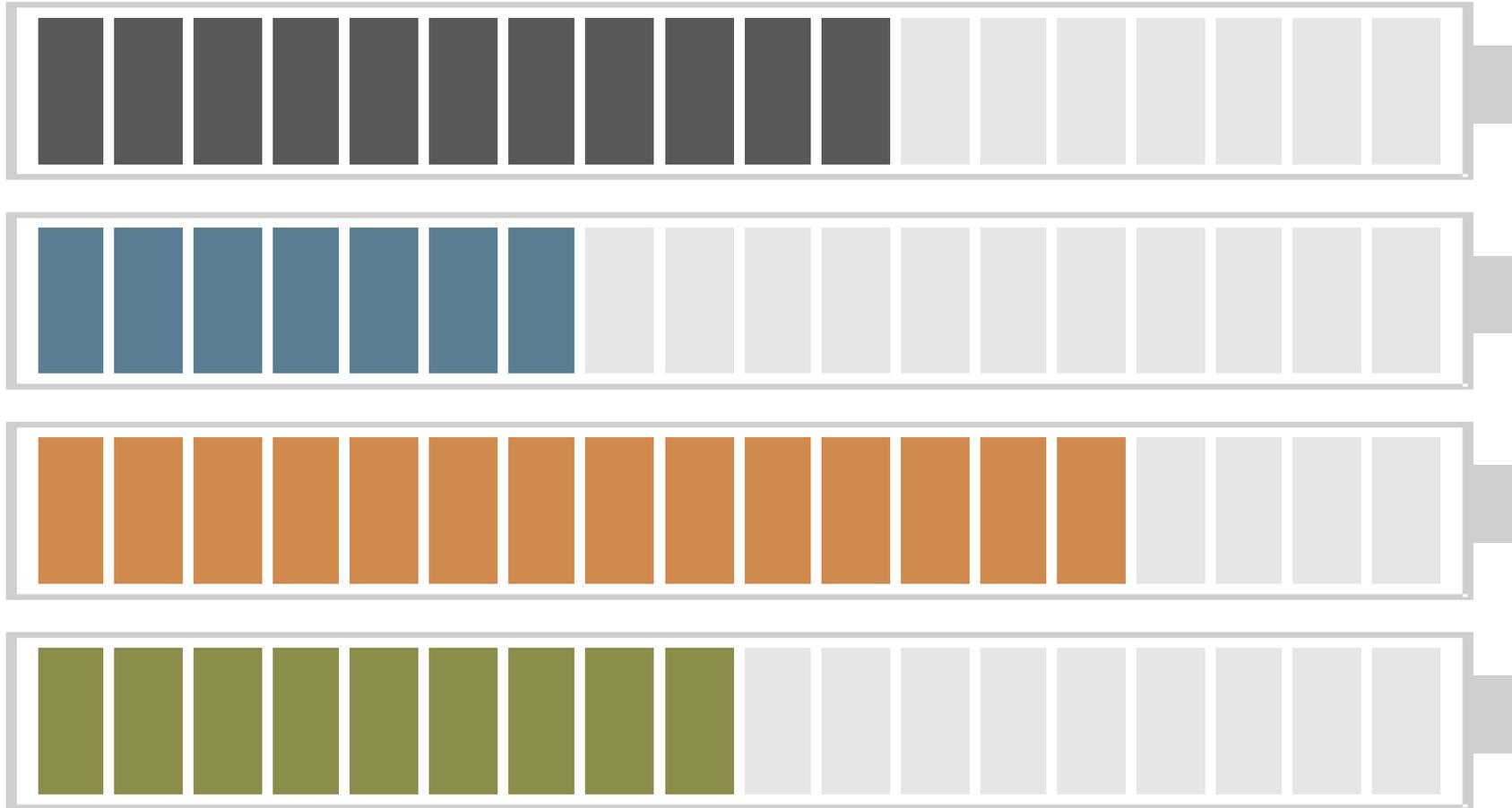
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3642	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3647	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3652	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3607	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3612	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3617	3,600.00eS
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Card # 603330XXXXXXXXX 3622	3,600.00eS
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Card # 603330XXXXXXXXX 3632	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3637	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3642	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3647	3,600.00eS
ITUNES APP GIFT CARD	
Card # 603330XXXXXXXXX 3652	3,600.00eS
S*ART SHD*PER INSTANT SAVINGS	-37,300.00
DUE VAT INC.	214,200.00
-----TENDERS-----	
CASH	214,200.00
TOTAL ITEMS:	70
e NON-SUPPLY	
-----VAT REG NO. 4360105588-----	
V VITALITY HEALTHYOLD CASH BACK ITEM	
S SMART SHOPPER INSTANT SAVINGS	

# Rhino poaching matter - cont

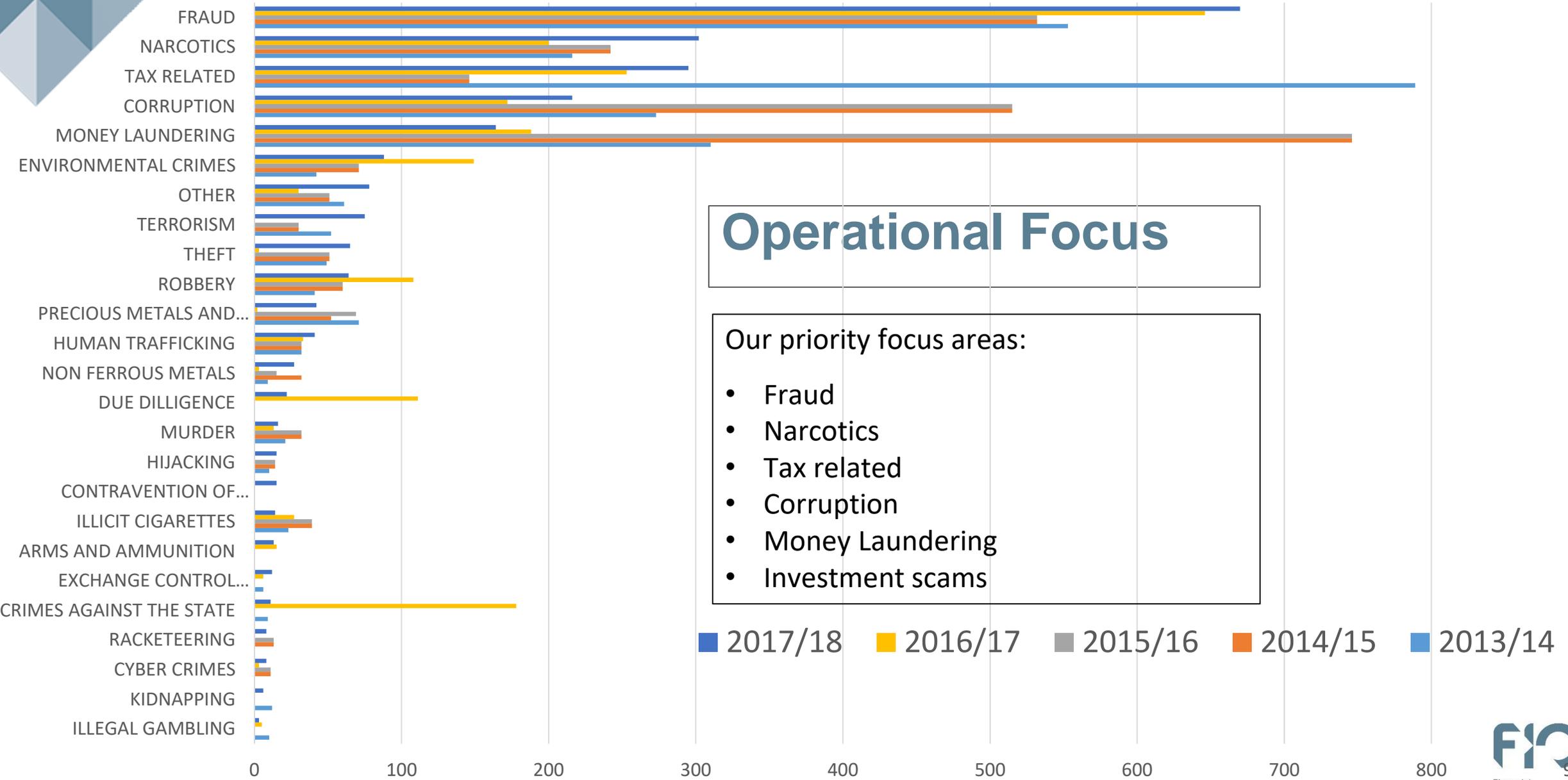
- One retail store, to date, provided proof of sale involving **R2.7 billion** of iTunes cards that have been purchased in South Africa.
- **Apple USA confirmed** that the vouchers were redeemed for their monetary value outside of the country.
- Investigations can confirm that pre-paid gift cards are currently being used to **circumvent reporting requirements** and resulting in **gross tax and revenue** evasion and exchange control violations.
- Approximately **14 individuals** were identified for purchasing iTunes cards in bulk.
- The purchase of iTunes cards provides a **commodity** that can be used world wide, i.e. exchange of **virtual currency** and purchase of physical electronic devices.
- This allows the users in South Africa to therefor purchase large quantities and amounts of these vouchers which they can sell on a Chinese internet site [www.taobao.com](http://www.taobao.com) or [www.tmall.com](http://www.tmall.com). This enables the movement of South African Rand out of the Republic without any Reserve Bank interference.



# STATISTICAL OVERVIEW



# Crime Types analysed 2013 to 2017



## Operational Focus

- Our priority focus areas:
- Fraud
  - Narcotics
  - Tax related
  - Corruption
  - Money Laundering
  - Investment scams

■ 2017/18   
 ■ 2016/17   
 ■ 2015/16   
 ■ 2014/15   
 ■ 2013/14

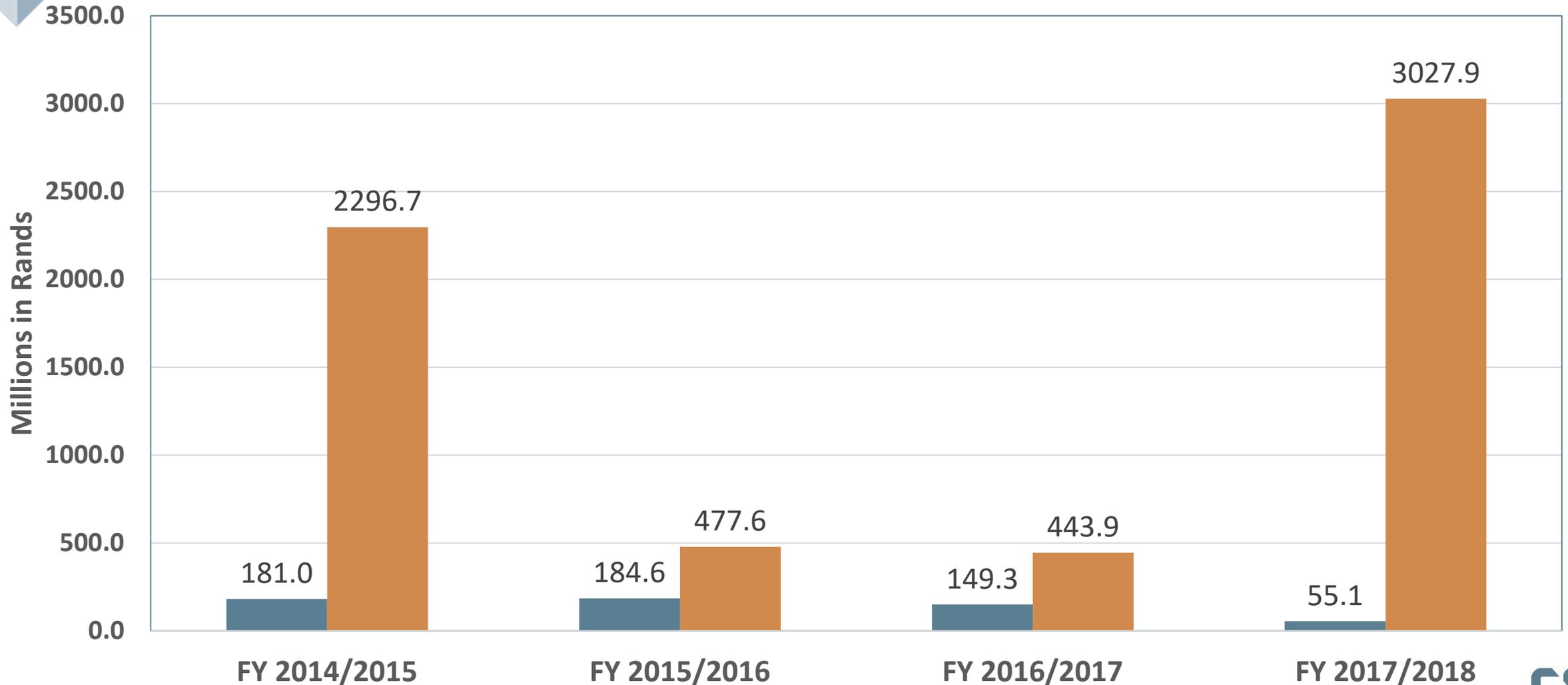
# Domestic and International requests from Law Enforcement Agencies for information responded to



# Referral of information to Law Enforcement Agencies (2014-2018)



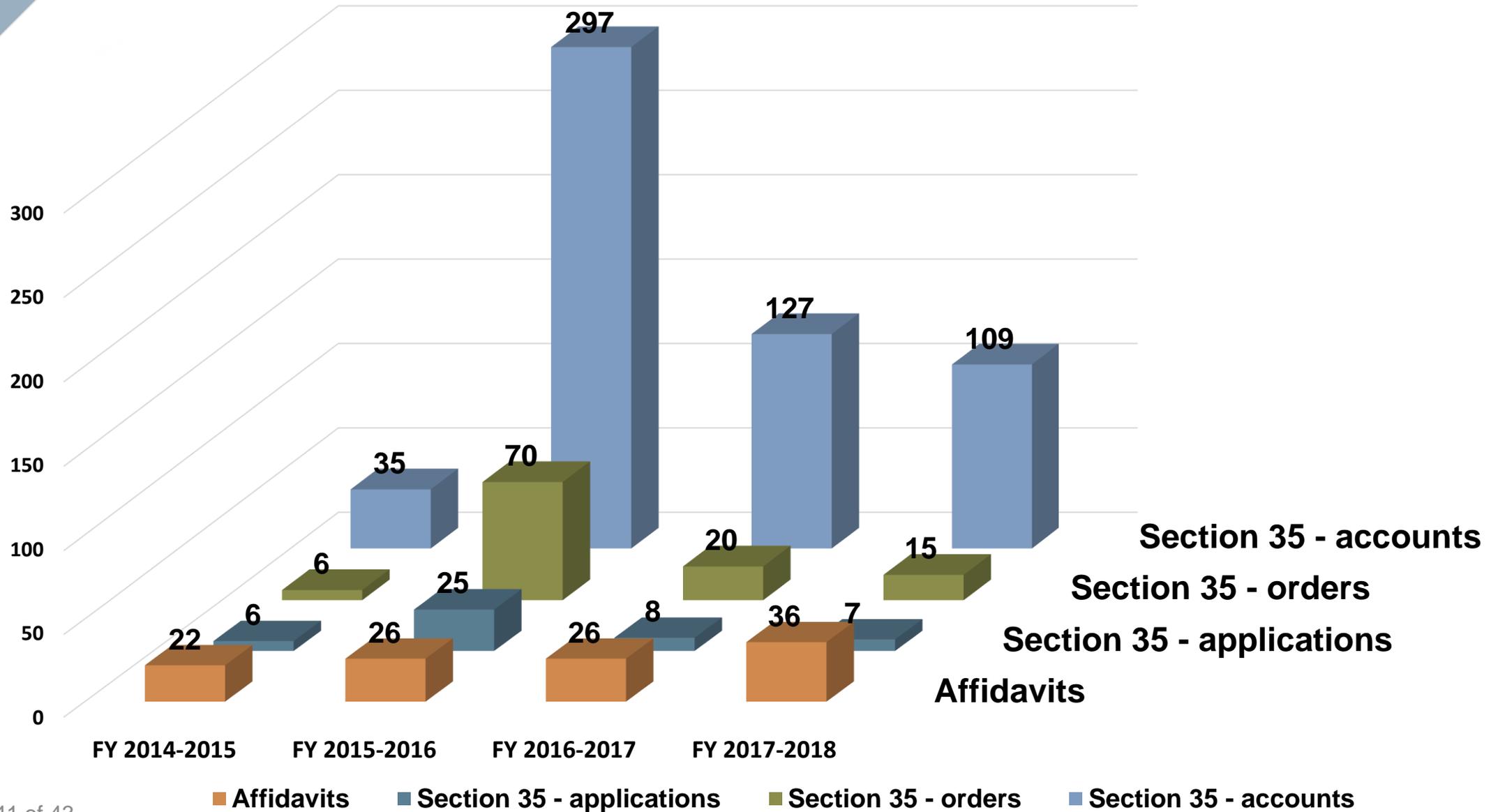
# Suspected proceeds of crime frozen 2014-2018



Section 34 freezing of accounts

Proceeds of crime recovered using FinInt

# Contributions to judicial proceedings



# Way forward

Together with other stakeholders, the FIC will continue to implement the following key interventions:

- Transparency is key across all aspects of IFFs
- Closely monitoring commercial routes to early detect the movement of IFFs
- Monitoring new and innovative means of generating IFFs such as the use of virtual currencies (eg crypto assets)
- Support efforts needed in asset recovery and repatriation
- Closely scrutinising international flows to financial secrecy jurisdictions

End

