

A STUDY ON CROSS-BORDER CASH DECLARATIONS IN BOTSWANA

INTRODUCTION

This paper analyses the cross-border cash reports submitted by the Botswana Unified Revenue Service (BURS) to the Financial Intelligence Agency (FIA) in terms of section 36 of the Financial Intelligence Act of 2019. The purpose of the analysis is to create an understanding of such data or information and how it relates to money laundering, the financing of terrorism and proliferation of arms of mass destruction. The information is assessed alongside other reports submitted to the FIA by reporting entities such as Suspicious Transactions Reports (STRs) and Large Cash Transaction Reports (LCTR). It is also another way of enhancing the utilization of the information submitted to the FIA to combat money laundering, financing of terrorism and proliferation of arms of mass destruction.

Relatively, the use of cash is wide spread and common particularly among developing economies where the payment systems are less complex. Whilst this may be convenient for the majority, most of whom maybe unbanked, such a phenomenon creates room for abuse for personal financial gains by criminals. According to the Botswana Financial Inclusion Update, 2015, 20% of the population of Botswana is excluded from the formal financial system. It is for this reason that the FIA would like to assess the extent to which the cross border cash declaration is wide spread and how it contributes or relates to money laundering, financing of terrorism and proliferation of arms of mass destruction.

BACKGROUND

It is a requirement in terms of Section 36 of the Financial Intelligence Act, 2019, that the BURS submit a declaration report relating to currency and Bearer Negotiable Instruments (BNIs), above the P10 000 threshold that is transported in or outside Botswana to the FIA. The BURS started submitting such a report to the FIA in February 2019, and has been submitting the report monthly.

Section 36 of the Financial Intelligence Act, 2019 is consistent with Recommendation 32 of the Financial Action Task Force (FATF) which requires countries to put in place mechanisms to detect the physical cross-border transportation of currency and bearer negotiable instruments, including through a declaration system. Countries are expected to develop legal and administrative capacity to deter, stop or restrain currency and BNIs suspected to be related to money laundering and terrorist financing, including any other financial crime. Further, the FATF requires countries to have:

- i) measures for detection:
- ii) ii) competent authorities to stop and restraint and
- iii) iii) effective, proportionate and dissuasive sanctions to deal with irregularities.

In terms of Customs Act of 2018, section 96 (1), a person transporting currency and BNI valued P10 000 and above across the border is required to submit a truthful declaration to customs officials "A person entering or leaving Botswana shall declare goods in his or her possession to the customs officials". Goods are defined in section 2 of the same act to include cash.

OBJECTIVE

- a) To assess the extent to which cash and BNIs are declared to the competent authorities.
- b) Establish the patterns, trends and how such information might relate to money laundering, financing of terrorism and proliferation of arms of mass destruction.

METHODOLOGY

To achieve this, the cross-border reports were analysed, mainly to establish and assess:

1. Total number of declarations made per time period (monthly)
2. Total number of declarants entering/leaving the country (monthly)
3. Number of declarants per geographic point of entry
4. Volume and value of declarations per geographic point of entry

In addition to the reports received from the BURS, the paper also use data on travelers coming in and leaving Botswana, reports submitted by other reporting entities and any other valuable information from other sources.

The information in this paper covers the period February to October 2019. The period is determined by the availability of data.

FINDINGS

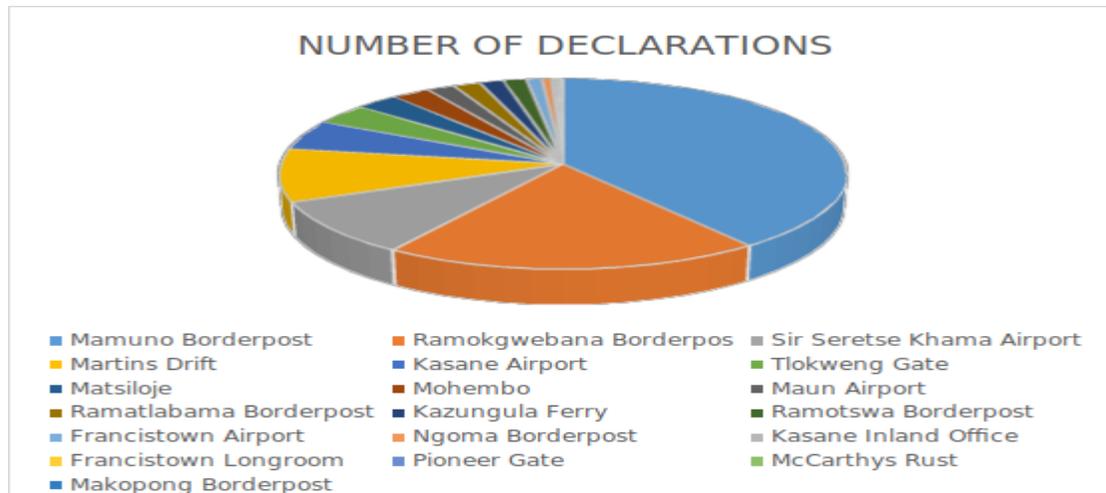
The cash and BNI declaration reports indicate that between February and September 2019, a total of 2 381 currency declarations were made to customs officials at all border entries across the country. Of these declarations, only 148, or 6.2% were for currency moved outside Botswana. The remaining 2233 or 93.8% of the declarations were for cash brought into the country. The total value of the currency declarations made during this period, in Botswana Pula, is BWP94 617 417 (USD 8 884 264.51≈), suggesting an average of P39 738.52 (USD 3 731.32≈) per declarant over the review period. These figures show that a significant amount of cash is moved across the borders of Botswana. The relatively high volume of cash flowing into the country is consistent with the already identified risk associated with the seemingly significant cash transactions observed or preferred in the economy e.g. the grey second hand car market.

Whilst statistics shows that the average value of the cash declared per individual is relatively low, meaning that there are more people involved, some of the declarations involve significantly high values e.g. there was a declaration of USD 80 000 (BWP 875 272)

DISTRIBUTION OF DECLARATIONS PER POINT OF ENTRY

This section seek to establish the number of declarants and value for each point of entry. The information is useful as it helps to determine the nature of trade that is prevalent in the area, or between Botswana and the concerned country. Figure 1 below shows the distribution of declarations per border post across the country:

Figure 1



Statistics shows Mamuno border to have had the highest number of declarations, a total of 745 or 39.25% of total declarations made during the period under review is followed by Ramokgwebana border with 369 or 19.44% and the Sir Seretse Khama Airport at 175 or 8.80%. Mamuno Border Post is the main point of entry between Botswana and Namibia (by road). It also connects Namibia and South Africa.

From information provided in the customs declaration reports, the main purpose for the currency importation into Botswana through Mamuno Border post is for the purchase of second-hand motor vehicles. Botswana's second-hand vehicle market consists mostly of vehicles imported from Asia, creating a highly active grey market attracting many buyers from

neighboring countries. The sector was identified in the country's National Risk Assessment as a high-risk for money laundering, as it is cash intensive and was not adequately supervised in relation to money laundering and terrorist financing.

It appears that the potential buyers usually carry cash across the border into Botswana. The currency declared is mostly the Namibian Dollar, and in some instances, the South African Rand. It would appear from this analysis that the second hand cars imported into Botswana have a market in Namibia. We have not been able to establish the reason for the phenomenon. It is, however, likely that there are import restrictions in Namibia, in this case buying from Botswana circumvent such restrictions.

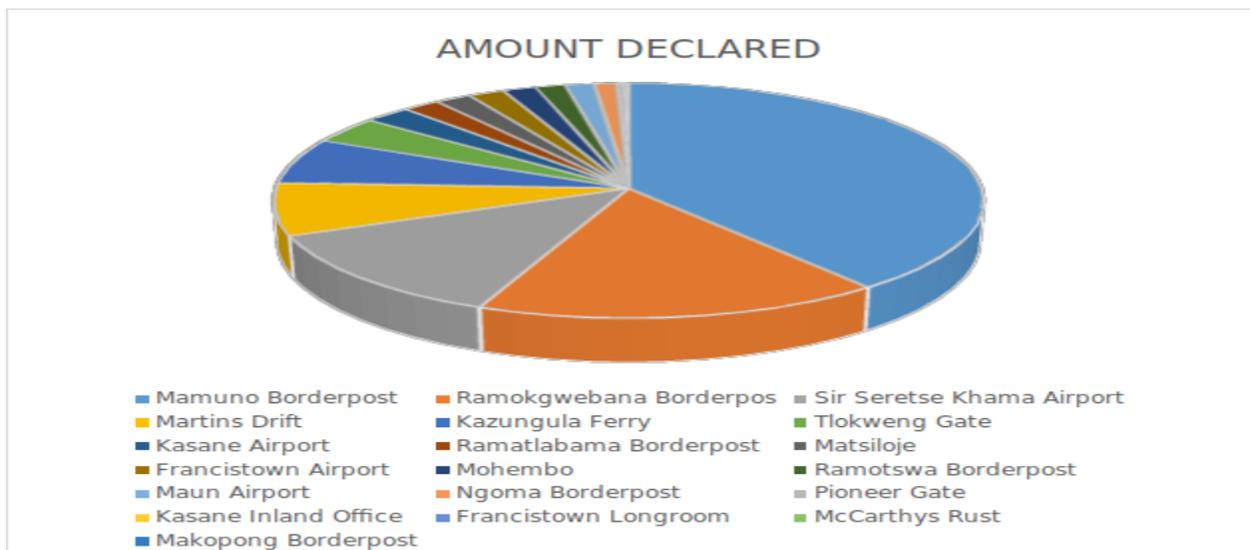
Ramokgwebana Border is to the North of the country, and serves as a point of entry between Botswana and Zimbabwe.

With regard to the declarations through the Ramokgwebana border, the statistics is consistent the information publicly available and that is known by the FIA relating to the outflow in the dollar value out of Zimbabwe.

DISTRIBUTION OF CURRENCY VALUE DECLARED PER POINT OF ENTRY

Figure 2 below shows the declarations by Pula value per entry point.

Illustration 2



Mamuno border post has the largest cash declared so far in terms of currency value. The total currency declared amounts to P36.7M or 38.8%, followed by Ramokgwebana border post at over P17.7M or 18.7%. The third one is Sir Seretse Khama Airport at P11.7M or 12.3%.

Further analysis shows that the average amount declared at Mamuno border post per a declaration is BWP 38 900 (USD 6 653≈) as compared to Ramokgwebana with an average amount of BWP124 100 (USD 11 653≈) per a declaration over the review period. The average value per a declaration at Ramokgwebana is higher than the average value declared at

Mamuno border post. This is, in our view, consistent with the purpose of importing cash into Botswana for Ramokgwebana border is largely profit repatriations fleeing from the economic hardships whilst mamuno inflow is mainly to purchase second hand cars.

In general there is a wide disparity in terms of the currency imports and exports declared across all border posts or ports of entry in Botswana. Whilst it may be logical to link cash inflow through Mamuno Border post to the second hand car grey market in Botswana, the explanation with regard to other border posts would differ, and may include reasons such as Botswana being used as a safe passage due to the flexible exchange controls in relation to other countries in the region. This line of thought is consistent with the reports received by the FIA, where large sums of money transported across the border, or electronically transferred into the country is immediately transferred to other countries without any valid economic reason. The disparity may also indicate that authorities place more effort on monitoring cash transported into the country as compared to cash transported out of the country.

SUSPICIOUS TRANSACTION REPORTS IN RELATION TO CASH CONVEYED INTO THE COUNTRY

This report uses information received by the FIA, in particular, the suspicious transaction reports involving cash declarations. The suspicious transactions were reported by the banks following deposits of non-declared or under declared cash by the customers. The table below shows the aggregated amounts and the number of STRs involving cash deposited into the local banks:

| YEAR | 2016 | 2017 | 2018 | 2019 | TOTAL |
|-------------------------|-------------|-------------|-------------|-------------|--------------|
| NUMBER OF STRs | 3 | 5 | 4 | 4 | 16 |
| AMOUNTS INVOLVED | USD 3M | USD 8M | USD 3M | USD 4.5M | USD 16.5M |

In one of the cases, three individuals were found to have transported currency in excess of USD 7M from Zimbabwe between the months January and April 2017, without truthful declaration.

From the reports received by the FIA, the most prevalent currency smuggled into the country is the United States Dollar, followed by the South African Rand. Similarly, the intelligence gathered show the most vulnerable ports of entry in the country are Ramokgwebana (11 STRs) and Tlokweng Border Post (5 STRs).

Information obtained from open sources further collaborates cases of cash smuggling into the country. In one prominent case, South African Police arrested a man attempting to smuggle ZAR 1.75M into Botswana on 7th August 2019, through Stockport border gate in South Africa (known as Parrs' Halt in Botswana), cited in News 24.

CONCLUSION

This paper analysed various variables in relation to cross border currency/BNI declarations regime in Botswana, and from the observations made, we draw the following conclusions;

1. That due to the significance of the value of STRs reported to the FIA relating to cash smuggled into the country, it is likely that the currency/BNI cross-border reports submitted to the FIA by BURS are

not representative of the actual imports and exports of currency/BNIs.

2. In view of the above, it can safely be deduced that the country's efforts to detect, stop and restrain smuggled cash are low, and that this position would result in inadequate administration of effective, proportionate and dissuasive sanctions to dissuade travelers from smuggling.
3. That the second hand car market contributes to a significant level, the value of cash imported into the country. That being the case, and the high risk to money laundering assigned to the sector in the National Risk Assessment 2017, it is likely that the sector may be used to launder proceeds of illegal activities not only in Botswana, but also in the neighboring countries.
4. From observations made on the declaration reports and the STRs filled with the FIA, travelers entering the country at Ramokgwebana border post are likely to import large amounts of foreign currency and that this may largely be attributed to externalization of funds from the country of origin.

RECOMMENDATIONS

1. There is an urgent need to assess the country's capabilities on detection, stopping and straining of the smuggling of currency/BNIs into and out of the country, through inter-agency efforts.
2. That Botswana's policy on liberal foreign exchange should be reconsidered, or the country should put in place strict measures to mitigate the risk associated with this policy.
3. BURS should set up a specialized AML Compliance Unit to deal with AML/CTF issues.
4. BURS should maintain statistics on the cash smugglers, including full details of the smugglers identity and physical addresses, and the

type of sanctions applied. The statistics should be shared regularly with relevant competent authorities and customs authorities of neighboring countries.

5. A traveler who fails to declare goods (including cash) contravenes section 96, subsection 8 of the Customs Act of 2018, and has committed an offence. Where applicable, criminal sanctions as prescribed by the act should be applied.
6. Customs Authorities should ensure similar enforcement of cross border cash declaration requirements for travelers leaving the Country.