



BANK OF PAPUA NEW GUINEA
FINANCIAL ANALYSIS AND SUPERVISION UNIT

Typology on Money Laundering Associated with Covid-19 Relief Funds

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Application of this Typology by Financial Institutions

Section 72 of the *Anti-Money Laundering and Counter Terrorist Financing Act 2015* (AML/CTF Act) outlines the functions of the Financial Analysis and Supervision Unit (FASU). Section 72(2)(b) includes among those functions the development of typology reports to raise awareness of money laundering and obligations on Financial Institutions (FIs) and Designated Non-financial Business and Professions (DNFBP) under the AMLCTF Act.

Section 6(3)(h) of the AML/CTF Act requires financial institutions to undertake and maintain a risk assessment to identify and assess the nature and level of money laundering risks that the financial institution may reasonably expect to face in the course of its business. In identifying and assessing the nature and level of risk, a financial institution must have regard to any applicable guidance produced by FASU.

This Typology Report must be considered by, and included in, the risk assessments conducted by financial institutions with respect to their dealings relating to funds that may be reasonably suspected to be possible proceeds of Covid-19 relief funds.

Money Laundering and Financing of Terrorism National Risk Assessment

Papua New Guinea's (PNG) AML/CTF National Risk Assessment (NRA) conducted in 2017 identified fraud against government programs and activities; and corruption and bribery of government officials among the top five (5) risks in the country¹. Moreover, corruption and bribery are predicate offences for money laundering.

Money Laundering Associated with Covid-19 Relief Funds

WHAT IS IT?

According to the Financial Action Task Force (FATF), money laundering is the process of disguising the illegal origin of criminal proceeds.

The PNG *Criminal Code Act 1974* however defines money laundering as: acquiring; receiving; possessing; using; concealing; disguising; converting; transferring; or moving property into or out of PNG that is criminal property or reasonably suspected of being criminal property - or, consenting to, or enabling such actions.

In the Criminal Code definition of money laundering, the terms 'concealing and disguising' refer to concealing or disguising the nature; source; location; disposition; movement; or ownership; or any rights with respect to criminal property, or property reasonably suspected of being criminal property.

¹ The other risks identified were: Illegal logging and Fishing; Taxation and revenue fraud; Other environmental offences; and, Illicit drug importation and distribution.

Money laundering associated with Covid-19 Relief Funds relates to funds fraudulently obtained, and/or fraudulently misused for expenditures or claims unrelated to Covid-19. The funds are often moved through the PNG financial system using company/business bank accounts in order to disguise or conceal the identity of the ultimate beneficial owner and to appear as having been genuinely obtained or disbursed²

Overview

The Covid-19 pandemic has had a drastic impact on the global economy and presented an unprecedented challenge to the national public health system. Communities around the world continue to face similar health crises. Covid-19 outbreaks have exposed deficiencies in the PNG health and procurement systems and provided new opportunities for corruption.

As a swift action to meet this enormous challenge posed by the pandemic, the government of PNG (GoPNG) developed packages of emergency health and economic relief measures through government budget and foreign aid.

The mismanagement and misuse of Covid-19 Relief funds has potentially undermined appropriate responses to the pandemic and deprived the public of better health services.

Information available to FASU indicates that mismanaged and misused funds are from both the GoPNG budget and foreign aid, and are disbursed through provincial and district Covid-19 trust accounts.

Red Flags of Misuse Identified.

- a) Covid-19 Relief Funds and the Economic Stimulus Package
 - Lack of supporting documents;
 - Payments to recently opened bank accounts;
 - Payments for non-Covid-19 related expenses or claims;
 - Payments to relatives of Politically Exposed Persons (PEPS) - including provincial government and district administration officers;
 - Payments to companies belonging to politicians and PEPs; and
 - Payments to supporters/voters of current politician(s).
- b) Supply of Personal Protection Equipment (PPE) for Covid-19
 - Payments to non-pharmaceutical companies with no experience in supply of PPEs or medicines; and
 - Payments to companies belonging to politicians and PEPs.
- c) Covid-19 Research Project

² This observation was made from the Suspicious Matter Reports (SMR) being reported by the reporting entities to FASU.

- Significant payments to inexperienced, newly established, so-called medical research organization(s) that claim to find a cure for Covid-19 in PNG.

Possible Crimes.

- Money laundering
- Misappropriation
- Bribery
- Abuse of public office
- Official Corruption
- False Pretence
- Conspiracy to defraud
- Forgery and Uttering

Risk Patterns Identified

1. **Public Procurement;** through bribing of procurement officials; non-competitive or closed bidding processes, limited-source tendering
2. **Conflicts of Interest:** between suppliers and staff in the procurement processes, political appointees as government department heads and on certain boards or responsible senior management positions, distribution of funds through nepotism; ethnic, family or political affiliations.
3. **Misappropriation:** ineligible beneficiaries receiving funds through bribes or circumventing rules, processes and regulations, manipulation & inflating claims, diverting resources meant for Covid-19 to other non-covid areas.
4. **Inadequate Reporting Mechanisms:** No project management and supervision, lack of adequate accounting systems leading to inadequate reporting, and no protection against reporting of potential corrupt activities.

As Covid-19 continues to affect nations around the world, it is important to point out the vulnerabilities identified in the systems in PNG that make them susceptible to misuse, bribery and corruption are not specific to the health system but are vulnerabilities that exist in PNG's procurement systems more generally. Financial institutions and DNFBPs should therefore consider and address the risks they face with respect to all government procurement.

Sections of the *Criminal Code Act 1974* Relevant to Fraud

- *Stealing – s372*
- *Misappropriation – s383A*
- *False Pretence – s404*
- *Conspiracy to defraud – s407*
- *Forgery and Uttering – s462 and s463*
- *Money Laundering – s508B and s508C*