



FINANCIAL FLOWS AND KEY INDICATORS ASSOCIATED WITH THE ILLICIT DRUGS TRADE IN SOUTH AFRICA

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EXPERT WORKING GROUP ON THE ILLICIT DRUGS TRADE

SAMLIT
South African Anti-Money Laundering
Integrated Task Force

SAMLIT MEMBERS

Public sector

Financial Intelligence Centre

South African Reserve Bank: Financial Surveillance department and Prudential Authority

Industry bodies

South African Banking Risk Information Centre

The Banking Association South Africa

SAMLIT banking sector members

Absa Group Limited

African Bank Limited

Albaraka Bank

Bank of China

Bank of Taiwan South Africa Branch

Bidvest Bank Limited

Capitec Bank Limited

China Construction Bank Corporation, JHB Branch

Citibank N.A., South Africa

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HSBC Bank

Investec Bank Limited

JP Morgan Chase

Nedbank Group Limited

Sasfin Bank Limited

Standard Chartered Bank

State Bank of India, South Africa

Standard Bank of South Africa Limited

TymeBank Limited

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Financial Intelligence Centre

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Other role players

DISCLAIMER

The information in this publication is for information purposes and for raising awareness on the illicit drugs trade and has not been independently verified.

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INTRODUCTION AND BACKGROUND

Overview

The use and trade in illicit drugs is a global problem. The United Nations Office on Drugs and Crime (UNODC) World Drug Report 2024 mentions that people using illicit drugs globally in 2022 was estimated at 292 million. The number of users increased by 20 percent over a period of 10 years. The report further mentions that globally there are 228 million cannabis users, 60 million opioid users, 30 million amphetamine users, 23 million cocaine users and 20 million ecstasy users.

The South African National Drug Master Plan 2019 - 2024 (NDMP) provides statistics on illicit drug use as a percentage of the population size. Cannabis users account for 3.65 percent of South Africa's population followed by cocaine and amphetamine users each constituting 1.02 percent. The illicit drugs trade in South Africa has far-reaching and detrimental effects on the economy and social stability. The NDMP states that within a South African context, we have "become a consumer, producer and transit country for drugs".

The illicit drugs trade in South Africa is facilitated by organised crime networks that operate domestically and/or transnationally. These criminal networks of organised crime are a threat to national security, and the health and well-being of citizens.

Invariably, these organised crime networks use the financial system to advance their illicit activities. Therefore, it is crucial to understand how this illicit activity intersects with the financial system. To gain more insights into understanding this problem, this research looks at the financial flows associated with the illicit drug trade obtained from open-source searches, financial intelligence associated with regulatory reports and case studies linked to the illicit drug trade.

Given the seriousness of the illicit drugs trade and the low level of prosecutions for money laundering offences linked to these crimes, the purpose of this expert working group is to contribute to improving the efforts of law enforcement in dealing with these crimes through the delivery of financial intelligence and evidence. Therefore, this research conducted by the

South African Anti-Money Laundering Integrated Task Force (SAMLIT) supports the achievement of Key Deliverable 3 of the NDMP, which seeks to mitigate the supply of drugs through enhanced operations by supporting a key action item through the delivery of intelligence products to contribute to the effectiveness of law enforcement operations.

The objectives listed below are some of the key areas identified that can support Key Deliverable 3 of the NDMP.

Objectives

The objectives of this study are multifaceted, aiming to address various dimensions of financial crimes related to the illicit drugs trade to:

- a) Increase knowledge among financial institutions, law enforcement and prosecuting authorities about the financial flows linked with the illicit trade in drugs.
- b) Assist financial institutions by providing typologies and indicators regarding financial flows that may be associated with serious drug crimes.
- c) Encourage the prosecution of money laundering offences associated with serious drugs predicate crimes related to the illicit trade in drugs and to assist law enforcement and prosecutorial authorities in their evidence gathering where such evidence is available.

This report is intended to provide knowledge obtained through the research conducted, to increase the detection and reporting of transactions for combating drugs-related financial crimes in South Africa. The analysis of the financial flows, and the provision of red flags and typologies, case studies, in conjunction with the crime statistics and associated regulatory frameworks is aimed at supporting the efforts of law enforcement agencies, and financial institutions.

Context of drug trafficking in South Africa

South Africa's geographical location and its well-developed financial, transport and logistics infrastructure make it an attractive hub as a transport, consumption and transit point for drug traffickers and users. Illicit drugs are moved into and from South Africa to Europe, Asia, and

other parts of Africa. These drugs, including heroin, cocaine, methamphetamine, and cannabis, are among the most trafficked and used drugs in the region.

In South Africa, the abuse and trade in illicit drugs is compounded by a combination of high rates of unemployment, poverty, and historical, racial and economic inequality, making vulnerable populations susceptible to exploitation. Together these factors present drug trafficking as a viable option for financial gain and for organised crime to flourish.

The domestic market for drugs is significant and growing. Local production of drugs like methamphetamine, also known as "tik," and the cultivation of cannabis is prevalent. During July 2024, there were media reports that mentioned that the South African Police Service (SAPS) conducted a search and seizure operation at a drug lab in Groblersdal, Limpopo. An estimated R2 billion worth of methamphetamine and chemicals linked to the production methamphetamine were found during the police operation. In the same media report the SAPS stated that prior to this arrest they discovered, from January 2024 until the arrest in July 2024, 10 other clandestine drug producing laboratories, and 34 persons were arrested.

Of concern is the transnational nature of the illicit drug trade and the arrest of foreigners in police operations where large consignments of drugs are seized. In the drug lab in Groblersdal, two Mexican nationals were arrested, and in another major drug arrest in Stilbaai, Southern Cape, in July 2024 two persons, one of whom was a Russian national, were arrested with 14 bags of cocaine estimated to be valued at R252 million. The arrest of the foreign nationals in these huge drug busts signifies the presence of transnational criminal actors in the country.

South Africa has adopted a multi-sectoral approach in supporting the NDMP 2019 - 2024 vision of achieving a drug free South Africa. The NDMP role players include the South African Police Service, South African Revenue Service, Financial Intelligence Centre and National Prosecuting Authority. One of the goals of the NDMP is to improve the effectiveness of the fight against drug-related crimes and countering money laundering while promoting judicial co-operation. The work of this EWG is in support of this goal.

Drug trafficking and financial crimes

Drug trafficking and financial crimes are intrinsically linked and perpetrated in an organised fashion, using sophisticated methods to launder their proceeds. The illicit activities related to drugs generate huge amounts of financial benefit and cash.

A 2024 study in the Journal of Illicit Economies and Development entitled "*Insights into the value of the market for cocaine, heroin and methamphetamine in South Africa*" focused on the use of cocaine, heroin and methamphetamine, and cited that the market value of these drugs was estimated at US\$3.5 billion.

Given the scale of the illicit drug trade and the vast amounts of proceeds of crime this generates globally and within South Africa, the use of the global and local financial systems for the laundering of the money is inevitable. In a 2012 study in the Journal of Economics and Sociology entitled, *Cleaning up dirty money: The illegal narcotics trade and money laundering*, it was emphasised that given the billions of dollars generated by the drug syndicates globally, the scale of the laundering of these proceeds of crime must be acknowledged.

Therefore, even though the estimated volume of proceeds of crime related to the illicit drug trade laundered in the South African financial system cannot be ascertained, the importance of detecting and reporting suspected transactions linked to the illicit drug trade is vital for an effective anti-money laundering system.

These regulatory reports may be used to increase the use of financial intelligence to assist enforcement and prosecution agencies in their investigation efforts. Lastly, it will also assist to mitigate the abuse of the financial system from these drug-related criminal actors.

STRENGTHENING THE ANTI-MONEY LAUNDERING REGIME TO COMBAT THE ILLICT DRUGS TRADE

Collaboration and co-ordination

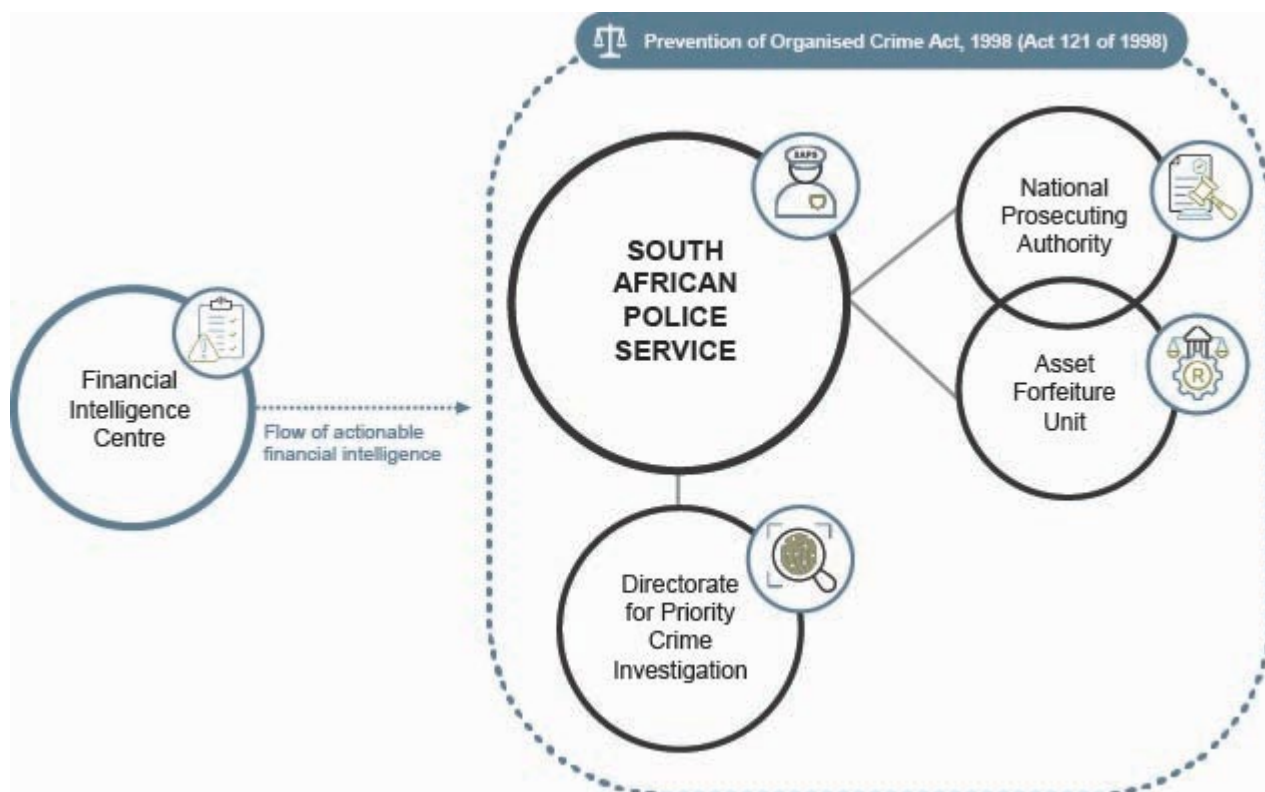
The fight against drugs-related crimes in South Africa requires a comprehensive collaborative and co-ordinated approach involving various stakeholders, including law enforcement agencies, financial institutions, regulatory bodies, and international partners. Collaboration and co-ordination must occur at a domestic and international level to effectively combat these serious crimes.

The lead agency mandated to conduct investigations and intelligence operations in the country is the South African Police Service (SAPS) which includes the Directorate for Priority Crime Investigation (DPCI). They enforce the provisions of the various laws to detect, seize, investigate and dismantle the operation of the criminal networks that are linked to the drug trade. The SAPS, in collaboration with other law enforcement agencies, continuously undertakes operations to intercept and dismantle drug trafficking networks. These efforts have led to numerous arrests and the seizure of substantial quantities of narcotics.

The Prevention of Organised Crime Act, 1998 (Act 121 of 1998) (POC Act) is central to these efforts, providing mechanisms for asset forfeiture and for empowering law enforcement agencies to target the financial infrastructure of criminal enterprises. This POC Act empowers the seizure of criminal assets, which is a critical tool for reducing the ability of criminals operate. This allows the Asset Forfeiture Unit (AFU), an arm of the National Prosecuting Authority (NPA) to work in tandem with the SAPS and DPCI to achieve these objectives. The POC Act also criminalises acts of money laundering. The POC Act also criminalises acts of racketeering, criminal gangs and money laundering. Racketeering prosecutions ensure that syndicate members who manage or participate in the activities of an illegal drug enterprise are jointly tried for offences committed for the benefit the enterprise i.e. kingpins, manufacturers, distributors, couriers, dealers and runners. Drug Trafficking cases in the

Western Cape and Eastern Cape show a strong association between gang membership and drug-related offences.

The Financial Intelligence Centre (FIC) supports intelligence and investigations efforts of the law enforcement agencies, namely SAPS, DPCI, AFU and NPA, by providing actionable financial intelligence to identify the proceeds of crime and financial transactions linked to the illicit drug trade. Generally, the FIC is also providing financial flow analysis and affidavits to support criminal prosecution and asset forfeiture processes of law enforcement agencies. Regarding supporting investigations into drug related matters, during 2024 the FIC provided a financial flow analysis and a supporting affidavit to assist investigations and prosecutions into a serious steroid investigation.



Implementing the global framework for AML, CFT and CFP measures

South Africa's commitment to international standards is evident in its alignment with the Financial Action Task Force (FATF) Recommendations. FATF provides that all member countries must adhere to these Recommendations which is critical for maintaining the integrity of the financial system. FATF mutual evaluations of member countries also require

that all countries must ensure that their national anti-money laundering and combating of financing of terrorism (AML and CFT) regimes remain robust and effective.

To further strengthen the AML and CFT regime, law enforcement agencies in South Africa also collaborate and co-ordinate with regional and other foreign counterparts to combat the serious transnational criminal drug syndicates.

South Africa engages in mutual legal assistance treaties and collaborates with international organisations such as INTERPOL and Europol to enhance cross-border investigations and enforcement actions. The Egmont Group of Financial Intelligence Units, whose members are from various countries, facilitates the exchange of financial intelligence, further strengthening global AML and CFT efforts. The Egmont Group's secure communication channels and collaborative platforms enable swift information sharing and co-ordination among member FIUs.

Public-private partnerships

The collaboration between public and private sectors is essential in the fight against financial crimes and serious crimes such as drug trafficking. Established by the FIC, the SAMLIT is facilitating information sharing to enhance the detection and prevention of illicit activities. SAMLIT has the capability to provide actionable financial intelligence to support investigations on crimes such as serious drug trafficking. This is actioned through tactical operation groups (TOGs). Law enforcement agencies as well as prosecutors are encouraged to engage the FIC to use the capacity of the TOGs to assist in financial flow analyses and investigations into serious drug related criminal networks.

The drug problem in South Africa

Drugs commonly trafficked in South Africa include heroin, cocaine, methamphetamine, and cannabis. These drugs are trafficked into the country through various routes, with significant quantities entering via seaports, airports, and land borders. As mentioned earlier South Africa is not only a destination market but also a transit point for drugs destined for other regions.

National drug related statistics

Financial institutions must use the annual statistics reported by the SAPS to help identify hot spots in the country, and as an aid to detect transactions that may be suspected to be linked to illicit drugs. The statistics below provide an overview of SAPS initiated arrests for drug related crimes for the period April 2023 to March 2024. The statistics is an indicator of the prevalence of drug related arrests in the policing districts.

Position in the country	Provincial position	Station	District	Province	2023/24 ¹
1	1	Mitchells Plain	City of Cape Town District	Western Cape	4,874
2	2	Kraaifontein	City of Cape Town District	Western Cape	3 182
3	3	Delft	City of Cape Town District	Western Cape	2 935
4	4	Lentegeur	City of Cape Town District	Western Cape	2 651
5	5	Cape Town Central	City of Cape Town District	Western Cape	2 586
6	1	Durban Central	eThekweni District	KwaZulu-Natal	2 256
7	6	Atlantis	City of Cape Town District	Western Cape	2 184
8	7	Steenberg	City of Cape Town District	Western Cape	1 927
9	8	Manenberg	City of Cape Town District	Western Cape	1 867
10	9	Kleinville	City of Cape Town District	Western Cape	1 673
11	10	Bishop Lavis	City of Cape Town District	Western Cape	1 628
12	11	Strand	City of Cape Town District	Western Cape	1 559
13	12	Worcester	Cape Winelands District	Western Cape	1 511
14	13	Nyanga	City of Cape Town District	Western Cape	1 480
15	14	Grassy Park	City of Cape Town District	Western Cape	1 408
16	15	Mfuleni	City of Cape Town District	Western Cape	1 390
17	16	Hermanus	Overberg District	Western Cape	1 243
18	1	JHB Central	Johannesburg District	Gauteng	1 227
19	17	Khayelitsha	City of Cape Town District	Western Cape	1 226
20	2	Sophia Town	Johannesburg District	Gauteng	1 118
21	18	Oudtshoorn	Garden Route District	Western Cape	1 114
22	19	Philippi	City of Cape Town District	Western Cape	1 083
23	20	Harare	City of Cape Town District	Western Cape	1 036
24	2	Plessislaer	Umgungundlovu District	KwaZulu-Natal	1 015
25	3	Pietermaritzburg	Umgungundlovu District	KwaZulu-Natal	968
26	21	Gugulethu	City of Cape Town District	Western Cape	968
27	4	Phoenix	eThekweni District	KwaZulu-Natal	942
28	22	Athlone	City of Cape Town District	Western Cape	924
29	3	Krugersdorp	West Rand District	Gauteng	918
30	5	Chatsworth	eThekweni District	KwaZulu-Natal	912

¹ Ongoing statistics on SAPS initiated arrests for drug related crimes for the period can be accessed at https://www.saps.gov.za/services/older_crimestats.php. The website offers updates regularly.

Anti-Money laundering techniques: An important tool in combating the pervasive drug trade

Drug trafficking criminals employ sophisticated methods to launder the proceeds of their illicit activities. These criminals use a combination of different financial services to disguise and obscure the proceeds of crime to avoid detection. Often, financial intelligence analysis on subjects of interest linked to drug trafficking reveal that they have access to bank accounts and credit offered by financial institutions to acquire and dispose of their assets and transact using money remittance services to conduct domestic and global transactions. Therefore, potentially, these criminals use the sophisticated financial system to advance their criminal acts.

According to the Institute for Security Studies Monograph: *Confronting the Proceeds of crime in Southern Africa: An introspection*, one of the key mechanisms for combating the financing of terrorism regime is to implement structured preventive measures. These measures, which are relevant to this research, include knowing your customer and detection and reporting obligations. These measures align with the current risk-based approach adopted in the current anti-money laundering and combating of terrorist financing regime, which requires regulated institutions to identify, assess and understand the risks of their clients, products and services.

Financial institutions are encouraged to use a range of measures to detect and report transactions to the FIC. As South Africa's financial intelligence unit, the FIC is the hub for receiving regulatory reports on transactions and other information from various categories of business, called accountable institutions, deemed to be vulnerable to money laundering and terrorist financing. In collecting, analysing regulatory reports from these institutions, and disseminating the resulting financial intelligence, the FIC plays a pivotal role in supporting investigations and applications for asset forfeiture.

The various suggested measures below will allow financial institutions to comply with legal obligations in terms of the FIC Act, which are geared to strengthen the country's AML, CFT and CPF measures.

Central to these obligations is the application of a robust risk-based approach to the onboarding and ongoing relations with clients. All financial and non-financial institutions are required to implement a risk-based approach to conducting business with new and current clients. Financial and non-financial institutions are obligated to submit regulatory reports to the FIC including suspicious and unusual transactions or activities, cash threshold reports on cash transactions exceeding R49 999.99 and on electronic international funds transfers exceeding R29 999.99. These and other FIC Act compliance obligations are geared to assist in the identification, detection and prevention of money laundering, terrorist financing and proliferation financing.

Monitoring media

Anti-money laundering risk and compliance practitioners should closely monitor local and international media networks for incidents related to illicit drugs trade and arrests of suspects linked to drug related investigations.

As a practice, once the arrested persons have appeared in court, their details are published. This information can be useful to determine if the financial institutions have exposure to these persons as clients. If the arrested person is a client, then the financial institution should determine the nature of the client's transactional activities using the red flags presented in this report. Where the transactions warrant reporting to the FIC, such reports should be filed in accordance with the prescripts mentioned below.

Monitor subpoenas

Financial institutions are encouraged to monitor subpoenas issued by various authorities regarding requests for client information and transactions on drug related investigations. This will improve the detection of transactions and clients from AML and predicate offence perspectives. It will also improve reporting of suspected transactions and clients linked to drug related investigations as the subpoenas identify the suspected predicate offences.

Analysis of suspicious transaction reports

The FIC was requested to analyse STRs that were reported by accountable institutions linked to drug related crimes. The information provided below represents the material that was

obtained following the analysis of the identified suspicious and unusual transactions reported by financial institutions. It is important to note that these transactions may or may not relate to convicted criminals or crimes. These figures are also not a comprehensive estimate or true reflection of the operating costs and profits linked to drug trafficking but only seek to provide an indication of the transacting behaviour related to suspected drug trade. The STRs reported were related to transactions conducted by alleged drug mules, persons found in possession of drugs, persons arrested for drug dealing, and manufacturing.

A sample of 1 137 suspicious and unusual transaction and activity reports related to trade in illicit drugs, received over the period 2022 to 2024 were analysed.

Table 1: Reports received from various role players in the financial and non-financial sectors

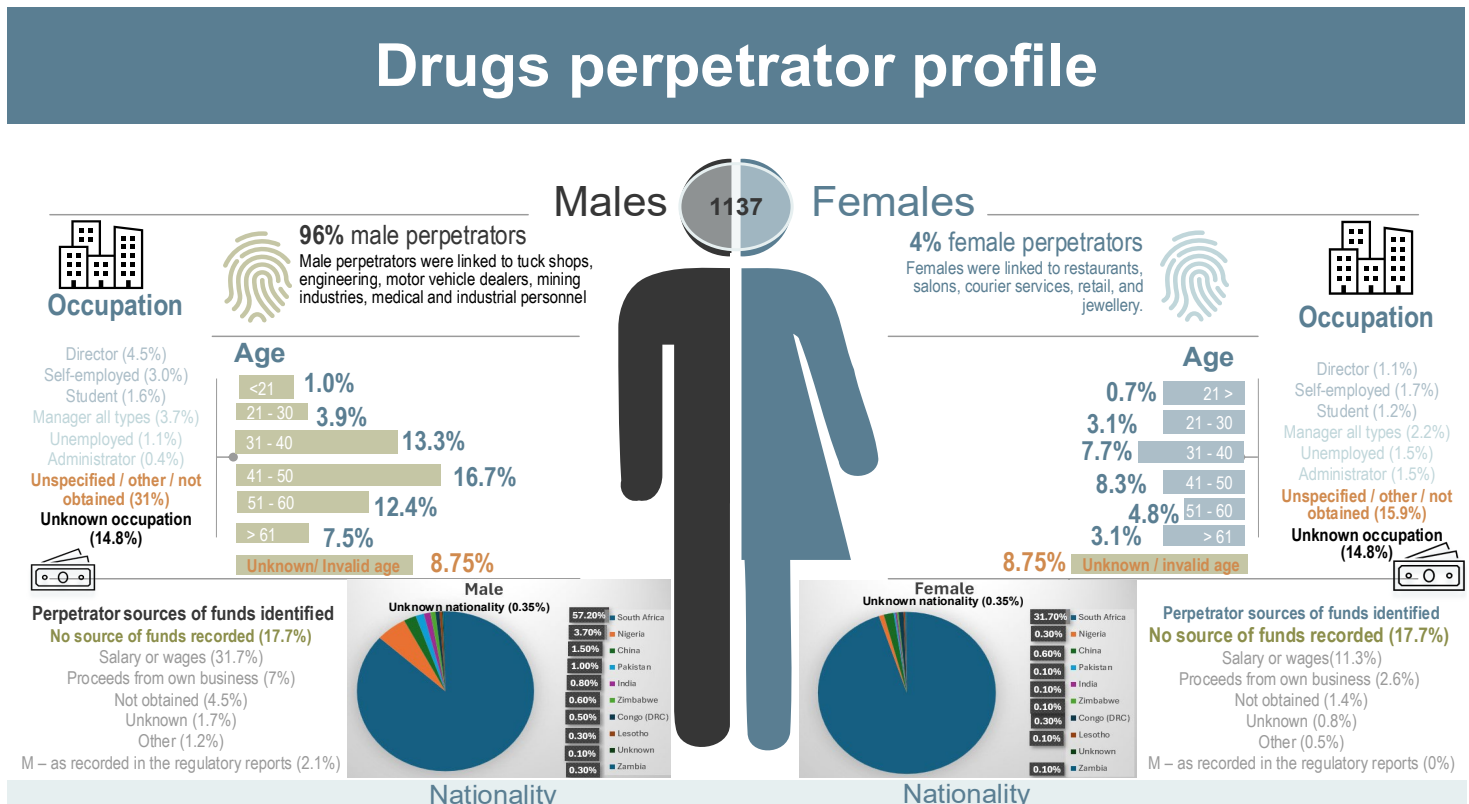
Items on Schedule 1 of the FIC Act	2022	2023	2024	Total
Bank	263	343	246	852
Investment advisor or intermediaries	52	52	30	134
Cross-border money or value transfer services provider	20	15	6	41
Gambling	2	12	18	32
High-value goods dealers	12	4	4	20
Foreign exchange agent or company	8	6		14
Legal practitioners (Attorneys)	1	5	7	13
Long-term insurer	5	2	4	11
Crypto asset service provider		5	2	7
Estate agent		4	1	5
Credit providers			3	3
Business entity with a reporting obligation in terms of Section 29 of the FIC Act	1	1		2
Trust service provider	1	1		2
Authorised users of an exchange			1	1
Total	365	450	322	1 137

Table 2: Rand value of drug trafficking related reports per year

Year	Value of reported transactions	% of total value
2022	R361 457 366	13%
2023	R1 039 327 895	38%
2024	R1 339 317 741	49%
Total	R2 740 103 002	100%

Importantly, these values were identified via a sample of transactions reported by financial and non-financial institutions to the FIC. For this reason, the findings shown can only be related to the analysis of the contents of the reports submitted to the FIC and not more broadly as related to drugs and drug trafficking.

Figure 1: Drug perpetrator profile



Nationality

The nationality of alleged perpetrators identified in Phase III of the STR data mining report was mostly found to be South African, Nigerian, Chinese, Pakistani and Indian. Regulatory reports containing unknown nationality information were also identified during the data mining exercise which constituted to 0.5 percent of the data.

Table 3: Nationality of perpetrators

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
South Africa	South Africa	South Africa
Nigeria	Nigeria	Nigeria
Tanzania	Tanzania	China

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
Congo	Zimbabwe	Pakistan
Zambia	Zambia	India
Zimbabwe	Senegal	Zimbabwe
Cameroon	Türkiye	Congo (DRC)
Israel	India	Lesotho
Senegal		Zambia

Ages and gender of perpetrators

The average age of alleged drug related perpetrators was 46 years. Of the perpetrators, 25.1 percent were in the age group 41 to 50, and 21 percent of the perpetrators were in the age group 31 to 40. Many perpetrators (17.3 percent) had an invalid age when calculations were done using the birth dates provided on goAML. Again, this can be attributed to insufficient data in reporting. The analysis determined that 1.8 percent were perpetrators reported under 21 years of age. Males accounted for 66.2 percent of alleged perpetrators linked to drug trafficking and the remaining 33.2 percent were female. The gender of a small number of people was not specified.

Domestic geographical locations

The top two cities in South Africa where alleged drug related crimes were reported were Johannesburg and Cape Town. Transactions reported from Johannesburg were primarily reported in Sandton and Waterfall. Those reported in Cape Town, were reported in Canal Walk and Stellenbosch. In both Johannesburg and Cape Town these locations were found to be where the head offices of the accountable institutions were located, and not where the actual locations where transactions had taken place.

Where electronic payments are conducted, it is often not possible for the reporters to capture the transaction locations, and therefore the location of the transactions remains unknown.

Table 4: Location of transactions

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
Cape Town	Cape Town	Johannesburg
Hermanus	Johannesburg	Sandton
Stellenbosch	Stellenbosch	Cape Town
Port Elizabeth	Durban	Stellenbosch
Johannesburg	Midrand	Braamfontein
Durban	Pretoria	Kempton Park
Bhisho	Potchefstroom	Phoenix
Queenstown	Isipingo	Lydenburg
Lesotho	Goodwood	Fordsburg
Pietermaritzburg	Clayville	Middleburg
Pretoria	Giyani	Rustenburg
Groblersdal	Mahikeng	Pretoria
Thabazimbi	Durbanville	Uitenhage
Polokwane	Milnerton	Springs
Constantia	Ermelo	Greytown
		Ladysmith
		Queenstown
		Pinetown
		Hillbrow
		Newcastle
		Tzaneen
		Ulundi
		Carlswald
		Strand
		Mthatha
		Polokwane
		Port Shepstone
		Boksburg

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
		Vangate
		Kokstad
		Bronkhorstspuit
		Athlone
		Bellville

Occupation

Analysis of STRs received in 2024 showed that the occupations of alleged perpetrators were mostly noted as unknown, self-employed or unemployed.

Further, it was noted that individuals involved in drug-related crimes appeared to hold positions at management level (directors of private registered businesses, managers). Students were also involved, as well as people in administrative jobs (e.g. administrator).

Industries

Many individuals reported to be involved in alleged drug crimes were unemployed. Where the employment information was provided, it was noted that the perpetrators implicated in drug crimes were linked to various types of businesses as either owners or employees. The STR analysis showed that the primary industry types that the drug crimes perpetrators were involved in included engineering, night clubs, a dagga farm, workers in medical and dental industries, courier services, industrial profession, taxi owner, beauty, hair products and services, mining industry and tuck shops, retail trade in second-hand goods.

Table 5: Professions of perpetrators

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
Unknown	Unknown	Engineering
Food, Liquor and general retail	General retail	Night clubs
Construction and civils	Government administration	Dagga farm
Beauty and hair products services	Estate agency	Medical and dental industries

Phase I April 2016 to December 2021	Phase II January 2022 to February 2023	Phase III January 2022 to December 2024
Taxi and transportation	Transportation	Courier service
Security services	Food and restaurants	Industrial profession
Medical	Defence	Taxi owner - Taxi and transport services
Finance and insurance	Cleaning services	Beauty
Export and import	Courier services	Hair products and services
Machine manufacturing	Retail flowers service	Mining industry
Drug rehabilitation	Fisheries	Tuck shop
Motor vehicle industry	Computer services	Retail in second-hand goods
Dry cleaning	Alcohol retail and deliveries	Motor vehicle dealer
Educational	Boat cruises	Estate agents
Estate agents	Building and renovations	Crypto assets service provider
Government	Education	Paper manufacturing
Social welfare organisation	Crypto trading	Long-term car rental
Cash loans	Medical and pharmaceutical	Maintenance company
Crypto currency trader	Government contracting	General trading
ICT	Law enforcement	Restaurants
Law enforcement	Engineering and merchandising	Community home based care trust
Government contracting	Security services	Jewellery store

Cross-border movement of funds

The value of cross-border transactions identified in the STRs related to perpetrators involved in alleged drug-related crimes is small in comparison to the profits generated through these crimes.

Table 6: Top 10 countries from which inward, cross-border transactions emanated

Cross-border INWARD transactions		
From		To South Africa
1	United States of America	R142 882 035
2	New Zealand	R339 100
3	Zimbabwe	R147 740
4	Oman	R85 000
5	Albania	R77 620
6	Nigeria	R70 000
7	United Kingdom	R61 954
8	Seychelles	R35 074
9	Botswana	R22 391
10	Aland Islands (Finland)	R1 440

Several money remittances were sent from the United States to foreign nationals in South Africa. These remittances were often described as “gifts”. No clear relationship could be established between the senders and receivers. As an example, a 32-year-old Zimbabwean national in South Africa received structured transactions ²from Zimbabwe. It is alleged that the sender was involved in drug dealing.

Table 7: Top six countries to which cross-border transactions were made from South Africa

Cross-border OUTWARD transactions		
To		From South Africa
1	Mozambique	R771 049
2	United States of America	R639 634
3	Bolivia	R27 554
4	United Arab Emirates	R 16 460
5	Lesotho	R11 000
6	Zimbabwe	R1 760

In an outward transaction example, remittances were made from South Africa to a Mozambican national who was allegedly remanded in custody for drug trafficking from South Africa to Mozambique.

Payments from South African companies to Mozambique raise concerns about potential trafficking of drugs or illicit goods due to the nature and characteristics of the invoicing.

² Structuring is a financial practice that involves breaking down large transactions into smaller sums to avoid detection by regulatory authorities

Several red flags were raised, including payments in euros to a US dollar jurisdiction, invalid contact information, notable discrepancies in weights and unit prices, and suspicious patterns in invoice numbers.

Modus operandi

The following characteristics regarding the *modus operandi* have been noted from STR data analysis and some case studies are presented.

Drug possession or seizure of drugs

- Suspects were arrested when large quantities of drugs were found in their possession.
- According to police³ a suspect was arrested after the Western Cape DPCI, the South African Narcotics Enforcement Bureau and Crime Intelligence in the Western Cape intercepted a bakkie in which the suspect was travelling. The suspect was on the way to Cape Town from Gauteng, with a delivery of cocaine worth more than R5.7 million. According to the police statement, a total of 19 bags of raw cocaine was found hidden in the back panels of the bakkie.
- An estate agent facilitated the conclusion of a managed lease in the Western Cape for a three-month period. The tenant was a Nigerian born South African resident. The lease indicated that there would be three occupants on the premises. Approximately one month into the lease, the estate agent was informed that the occupants were arrested at the premises by SAPS along with various other occupants who also appeared to be staying on the premises. Several stolen items such as laptops, Rolex watches, expensive designer shoes, dollars in cash, diamonds and drugs, were found in the premises and confiscated as evidence. The tenant, who was not staying at the premises, was informed, and agreed that the lease be terminated with immediate effect. The arrested occupants were allegedly linked to the Black Axe gang, a global organised crime syndicate with its origins in Nigeria.
- According to a media article, it was stated that four of six alleged mining kingpins had fraudulently obtained South African identity documents and were charged with fraud, possession of ammunition, possession of drugs, money laundering and contravention of the Immigration Act, 2002 (Act 13 of 2002) and Precious Metals Act, 2005 (Act 37 of 2005).

³ Source: www.saps.gov.za

- A client operating in wholesale trade in foodstuffs importing chicken was implicated in potentially illicit activity. SAPS received information about a container suspected to contain drugs arriving at Durban Harbour. The container originated from Santos, Brazil. Upon inspection, the police found 220kg of cocaine worth R80 million stuffed in frozen chickens. The recipient of the shipment alleged that it was common knowledge in the industry that containers were intercepted and tampered with by criminal networks.
- A 52-year-old man from KwaZulu-Natal was arrested after police found drugs worth R2 million in his home. According to a KZN police spokesperson an intensive investigation was conducted after police received reports of illegal drug trade taking place at a house in Chatsworth. The premises was searched after serving a search warrant, and the police found 70 800 capsules of heroin, 50 pieces of rock cocaine, 15 mandrax tablets and 291 grams of crystal methamphetamine in an outbuilding. Police also seized R13 650 in cash suspected to be the proceeds of the drug trade.
- Police arrested persons linked to the discovery of R400 million worth of drugs in a boat being transported on the N1 freeway in Gauteng. One of the suspects was arrested in Pretoria after being found with 800kg of compressed pure cocaine. The cocaine was reportedly destined for local and international markets and was organised by a drug syndicate operating in the country that was allegedly stockpiling a large quantity of cocaine in Gauteng.

Drug dealing

- A tip-off was received that alleged an unemployed individual, with expected income reported as maintenance from her husband, was selling drugs, and using her bank account to launder the money. The account received funds noted as spousal and child maintenance, and funds were disposed through rental expense, card purchases and cash withdrawals.

Drug distribution

- A Cape Town doctor⁴ was sentenced in connection with the selling and distribution of scheduled medicine worth about R5 million. The doctor and his wife were arrested in

⁴ Media release: <https://www.medicalbrief.co.za/suspended-sentences-for-cape-doctor-who-sold-r5m-medicines/>

2018 by the DPCI at a post office branch after he had handed in envelopes containing scheduled medicines destined for the US. The couple appeared in court on charges of contravening the Medicines and Related Substances Control Act, 1965 (Act 101 of 1965) read with the Drugs and Drug Trafficking Act, 1992 (Act 140 of 1992). It was noted that after the doctor's arrest in 2018, he was actively transacting in crypto assets from 2020 and 2024 and that he received substantial amounts of Bitcoin, which were withdrawn as fiat currency.

Drug manufacturing

- The subject was one of 11 individuals involved in the cultivating, dealing and possession of cannabis, and in money laundering and racketeering. The subject was part of the largest cannabis producing and distributing network in South Africa. According to the DPCI, the operation incorporated high technology hydroponic laboratories, processing farms and a complex distribution network. In May 2024, the subject was sentenced to pay a fine of R300 000 or to serve three years of imprisonment, of which R100 000 or one year of imprisonment were suspended for five years. The court further granted an asset forfeiture order for an amount of R63 000 relating to the proceeds of cannabis sales.
- Seven suspects who were involved in a drug cartel operating in South Africa were arrested in Breyten in Mpumalanga. Mandrax to the value of R210 million was seized as well as other illegal substances, manufacturing equipment, chemicals used in manufacturing mandrax, and other drugs.
- Limpopo police swooped on a massive drug lab in the Groblersdal area where drugs valued at R2 billion were found. Four suspects, including the farm owner and two Mexican nationals were arrested in an intelligence-driven operation by members of the Limpopo DPCI and SAPS. A tip-off was received about suspicious activities taking place at the farm. Four structures on the property were searched and large quantities of chemicals used in the manufacture of illicit drugs including acetone and crystal meth were recovered.

Gambling

- A customer of a gambling institution was alleged to be dealing in drugs and committing money laundering. He was part of a syndicate in KZN, that was involved in the manufacture of heroin capsules and crack cocaine, and the wholesale distribution of

crystal meth and mandrax. The money laundering was facilitated by the syndicate members' wives as well as through the opening of businesses, purchasing of properties and new vehicles in friends' names. The gambler deposited and withdrew exclusively at the gambling institution via electronic funds transfers. Listed offences included, but were not limited to, money laundering, drug manufacture and selling, and drug peddling.

- It is alleged that a gambling institution's client profited from the drug trade and was laundering the proceeds via online gambling. It was his intention to wash the monies, which were the proceeds of crime, through the gambling institution, and to make it look like winnings from gambling. After an investigation was conducted, it was discovered that the client was shot dead in a drive by shooting in May 2022.
- A gambler exchanged a large sum of cash for chips but did not take part in any gambling activity. He handed the chips over to another gambler, who alleged that he had forgotten his passport in his hotel. The second gambler was not able to purchase chips from the gambling institution without presenting his passport. The second gambler used a portion of the chips on the gaming table.

Drug trafficking

- Black Axe members, a Nigerian organised group that operated in multiple jurisdictions, were known for their several criminal activities including drug trafficking, were found to have bank accounts linked to them. They received funds via cash deposits, inward SWIFT transfers and electronic transfers. The source and nature of the deposits could not be determined as they were in cash and the references used were non-specific. The SWIFT transfers were generated from various senders across the world, which also came from different accounts. This group was classified by INTERPOL and the FBI as a transnational organised crime group.

According to INTERPOL, one of the Neo Black Movement's (Black Axe) *modus operandi* was to channel money gained from online financial scams into other crime types, such as drugs and human trafficking. Black Axe and similar groups have been responsible for most of the world's cyber-enabled financial fraud as well as many other serious crimes, according to evidence analysed by INTERPOL's Financial Crime and Anti-Corruption

Centre (IFCACC) and South Africa's law enforcement. In 2022 some of its members were arrested in South Africa through an operation led by INTERPOL.

Crypto currency or Bitcoin used for drug trafficking or illegal activities

- Some of the reported subjects were suspected to be dealing in drugs or narcotics linked to bitcoin transactions on the blockchain and may have used crypto currencies or Bitcoin to perform illegal activities.
- A South African male was arrested for dealing in illicit drugs and released on bail. Upon further review using a software tool called Chainalysis, which can be used to monitor the flow of crypto currency on the blockchain, it was discovered that the suspect made four Bitcoin transactions to various unknown wallets.

goAML filing

The FIC has developed the following prescripts to guide financial institutions when reporting transactions related to the illicit drug trade. It is important that the reporting of the transactions on goAML adheres to these prescripts as this aids in the detection of these reports at the FIC.

- Selecting the correct indicators on goAML when reporting regulatory reports
 - RIND017 - Drug Mule - Person has previously been convicted or suspected of involvement in drug trafficking
 - RIND018 - Drug trafficking

In addition, the following criteria can be a focus going forward, to improve stemming these crimes:

- Defined reporting timelines
- Products and services identified and reported
- Reports containing all necessary information on clients and related detail
- Grounds of suspicion information provided
- Providing client identifiers and occupations
- Source of funds information.

It is also advised that the free text narration the terms "Drugs" or "Narcotics" must be included in the free text part when reporting the reasons for suspicion on goAML.

CASE STUDIES AND INDICATORS

Case study 1: Inter-provincial drug network

The FIC responded to a request for financial intelligence on an inter-provincial drug smuggling network. Analysis identified the various bank accounts and registered businesses linked to subjects of interest. One of the subjects was associated with more than 40 registered private business entities. A suspicious and unusual transaction report was filed on one of the subject's businesses. The suspicious activity on the account mentioned that there were large volumes of high value cash deposits of round amounts made to an account referenced with the name of one of the person's business or as referenced as "consultancy".

In the same case, another subject of interest, a foreign national, was associated with six private registered businesses. This subject, who was 26 years of age, was reported by a car dealership for purchasing an expensive motor vehicle. This subject made three separate cash deposits in two days, amounting to R600 000, to the motor vehicles dealer's bank account. An STR filed on a bank account linked to the foreign national's business account was reported for receiving multiple cash deposits. The bank found it suspicious that the business, associated with a residential property was receiving multiple electronic credit transactions referenced as "supplies". It was found that business associated with a residential property should not have been receiving "supplies" as part of its business operations.

Almost all the subjects related to this analysis were receiving large volumes of transactions into their bank accounts which aligned to the suspected activities in this investigation.

Case study 2: National distribution of illicit performance enhancing drugs

A law enforcement agency requested financial intelligence with respect to five subjects of interest suspected to be involved in dealing and distributing illicit and unregistered scheduled medicines (predominantly performance enhancing drugs or steroids. The law enforcement agency discovered online websites used to advertise, sell, and distribute the performance enhancing drugs.

Financial intelligence identified various bank accounts linked to the subjects and the business entities linked to them. The analysis identified payments for products that were received in a business bank account linked to one of the subjects. Once the payments were received into the business account, multiple flow of funds were tracked between various accounts including the personal accounts of the subjects of interest. The analysis determined that the transactions were not consistent with the nature of the bank accounts or the client's profile.

Case study 3: Dealing in cocaine

A law enforcement agency requested financial intelligence with respect to a transnational syndicate involved in cocaine smuggling. It was alleged that the main subject of interest received large payments ranging from R10 000 to R30 000 from members of his syndicate.

Analysis identified several bank accounts which the main subject held at various financial institutions. The main subject was associated with more than 15 private business entities registered in his name. He was linked to one property registered in his personal capacity as well as two additional properties in the names of two of his business entities.

Analysis found that there were multiple cash transaction reports filed by financial institutions that reported excessive cash deposits and or withdrawals conducted by the subject in various locations. A review of one of the reported bank accounts for a certain period revealed that it was primarily funded by electronic payments from multiple third parties. Also noted were cash deposits totalling R30 000 credited to the account on a specific date. The funds were subsequently disposed of through transfers to several bank accounts. The financial institution found that the transactions were consistent with the allegations levelled against the subject.

Table 8: Red flags and possible indicators on drug related transactions

Red flags	Indicators
Large cash transactions	Frequent large cash deposits or withdrawals that are inconsistent with the customer's profile
Cash	Making cash payments for funds transfers
Smurfing	Breaking down large amounts of money into smaller, less suspicious amounts to avoid reporting thresholds
Structuring	Making cash deposits at different branches of a company account and make personal use of the funds
Multiple accounts	Using multiple accounts to move money, often in different names or at different banks, to hide proceeds of crime
Transactions	Multiple foreign, cross-border and/or domestic transactions
Unusual transactions	Transactions that do not match the customer's usual business activities or personal profile
Third party transactions	Funds being deposited or withdrawn by third parties with no clear connection to the account holder
Frequent international transfers	Transfers to or from countries known for drug trafficking
Rapid movement of funds	Quick transfers of money between accounts, especially if the funds are moved out soon after being deposited
Unexplained wealth	Sudden increases in wealth without a clear, legitimate source
Cash-intensive businesses	Businesses that deal primarily in cash, such as bars, restaurants, or car washes being used to launder money
Suspicious use of ATMs	Frequent ATM withdrawals or deposits that are unusual for the account holder
Documentation	Use of fraudulent documentation such as visas
Investment products	Purchase of investment products
Use of money	Purchase of high-value assets and lifestyle expenses
Transactions	High volume of transactions
Use of attorneys	Procurement of high-value assets via attorneys
Accounts	Use of family members' accounts
Settlement	Early settlement of asset-based finance accounts
Syndicates	Display similar indicators as those involved in money laundering
Co-mingling sources of funds	Illicit funds mixed with legitimate sources of income and/or personal and business accounts
Deposits	Frequent cash deposits and withdrawals over a short period of time

CONCLUSION AND RECOMMENDATIONS

The purpose of this report was to conduct research on the how the financial system in South Africa can be misused by criminal actors in the drug trade. And, following the research, the intention was to make recommendations on how the detection of drug related transactions can be improved and be used to assist in the provision of financial intelligence and investigations.

This report highlights that the illicit drug trade and drug usage is prevalent in certain areas in South Africa and supports the contention that the country serves as a hub for the transnational movement of drugs to other parts of the world. While the report is unable to detail the extent to which criminal actors use the financial system to ply their trade, the case studies and analysis of regulatory reports confirm undeniably that our financial system can be used by these criminal actors.

Hence, SAMLIT member banks have a critical role to play in detecting and reporting transactions related to the illicit drug trade. Additionally, the financial intelligence obtained from these reports, together with the additional assistance that can be provided by the banks, can assist in the effectiveness in supporting investigations of these serious crimes. Geographic data relating to the suspicious transactions as well as details on the alleged perpetrators, greatly assists in painting a more accurate picture of the narcotics threat.

The regulatory report analysis highlights a misalignment with the reports filed in relation to the hotspots of the drug trade and usage. This EWG report did not assess the reasons for the misalignment but, it does present an opportunity for the banks to focus their detection efforts regarding transactions conducted in the high drug usage areas.

The report also highlights other measures that can be used to improve detection such as the scanning of media reports. The financial intelligence uncovered in the case studies is a stark reminder that it is not easy to detect financial flows linked to the drug trade as transactions are masked. Often, as observed in the case studies, the transactions are conducted in a manner that cannot be linked to the drug trade. It is also evident that it is difficult to discern

what proceeds of crime transactions are reintegrated into the financial system or used to fund lifestyle expenses. However, where the conduct of transactions is suspicious in relation to the nature of the business conducted by the client or the profile of the account holder, the reporting of such transactions is likely to occur. To address the research objectives of the report, the following recommendations are proposed.

Recommendations

The key findings from this report on the illegal drug trade in South Africa underscore the complexity of the issue and the need for a multifaceted response. The recommendations below aim to enhance the use of financial intelligence in supporting investigations, improve the detection and reporting of transactions potentially linked to the drug trade, and strengthen collaboration in criminal investigations.

Recommendation 1: Enhance training on financial intelligence

To improve the effectiveness of criminal investigations, it is essential to increase awareness and understanding of financial intelligence among investigative, intelligence, and prosecutorial agencies. It is recommended that the FIC, in collaboration with SAMLIT members, conduct five training sessions over a 12-month period. These sessions should focus on the application of financial intelligence in investigations and be held at both the national head offices and regional offices in the Western Cape, Gauteng, and KwaZulu-Natal i.e. the provinces where the highest number of drug-related arrests have been observed. This initiative supports Key Deliverable 3 of the National Drug Master Plan.

Recommendation 2: Strengthen detection and reporting by financial institutions

This report provides valuable insights on the geographic hotspots affected by the illicit drug trade, as well as red flag indicators and case studies that can assist financial institutions in identifying suspicious transactions. It is recommended that:

- The findings of this report be incorporated into anti-money laundering training materials for financial institutions.
- The expert working group to deliver a presentation on the report's findings to bank officials within six months of this report's release via a SAMLIT-hosted webinar.

These steps will raise awareness and help improve the quality and frequency of reporting related to drug trade-linked transactions.

Recommendation 3: *Apply financial intelligence in active investigations*

To demonstrate the practical value of financial intelligence in combating serious drug-related offences, it is recommended that the DPCI, SAPS, and the NPA identify five criminal investigations within 12 months of this report's release in which they will request financial intelligence from the FIC. The FIC, with support from SAMLIT member banks, will provide the necessary intelligence and assist with evidence gathering, including responding to court subpoenas where applicable.

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