

# CHAPTER 3

## COMBATING MONEY LAUNDERING IN THE SADC SUB-REGION: THE CASE OF TANZANIA

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### Introduction

Money laundering, for the purposes of this report, is defined as “the manipulation and use of money or property to hide its illegal source or criminal origin by using it in legal or illegal activity”.

Money laundering is a domestic and transnational problem that is engendered by organised crime and illegal acts. Until recently, the definition of money laundering was limited to the disguising of dirty money and property obtained from criminal activities. However, with terrorism being financed with laundered money, the definition has been widened to include legal or illegal funds laundered for terrorist purposes (noting also that terrorism is a form of organised crime). In this context, money laundering is not only the disguise of illegitimate proceeds, but also the use of legitimate funds for illegal purposes.

The SADC sub-region is a low-risk jurisdictional area for organised crime and money laundering, owing to the lack of a legal framework for the effective control of these activities. Except for South Africa, the sub-region has a weak financial sector. It is under-policed, and the law enforcement agencies lack trained capacity and have poor facilities to detect economic crime. The law enforcement agencies in the SADC sub-region are also technologically under-resourced to contend with organised criminal groups. Furthermore, although the problem of organised crime is transnational, until recently most states in the sub-region regarded it as a localised, national problem and treated it under common law, which does not make organised crime and money laundering distinct offences.

In the SADC sub-region six out of the thirteen countries do not treat money laundering as a criminal offence. Another six countries do not treat it as a transnational crime. However, in the past few years the situation has begun to change as a result of international and diplomatic pressure. Many states in the sub-region now see money laundering as both a domestic and a transnational crime.

## The SADC sub-region in perspective

The SADC sub-region consists mainly of Southern and Central African states, with Tanzania located in both Eastern and Southern Africa. Except for South Africa and Namibia, the states in the sub-region obtained their independence in the 1960s and 1970s. They were left with all the deficits and diseconomies of soft states and fragile political systems. Under minority rule, South Africa developed advanced communication, financial and transport infrastructures. When minority rule crumbled in 1994, the Southern African countries found themselves with a powerful developed neighbour, which has to a certain extent been afflicted by sophisticated organised crime.

One of the negative developments was the increase in money laundering. It is estimated that US\$22 billion was laundered through the sub-region's financial system from 1999–2001. Of this, US\$15 billion was generated within the sub-region. An estimate US\$7 billion infiltrated the sub-region from other regions, including East Asia (US\$1 billion), North America (US\$5 billion) and Europe (US\$1 billion).<sup>1</sup> No one can tell how much money is laundered in or through Tanzania, because detection methods are poor or entirely lacking, as is record keeping by authoritative institutions in financial matters and law enforcement agencies.

## Tanzania

Tanzania is strategically located at the crossroads between Southern, Central, East and south-western Africa. The country is one of the least developed countries in the sub-region. It has weak political, economic, communication and financial sectors. A US State Department Report describes the country as being located along drug trafficking routes from Asia and the Middle East to the United States.<sup>2</sup> The report goes on to say that, "money laundering happens in Tanzania, but a very weak financial sector and under-trained and under-funded law enforcement make it difficult to tackle and persecute".

Before economic reforms were put in place, the state owned and controlled the major means of production and services. Nearly all banking institutions and non-banking financial institutions were state owned. The significance of the past policies is that the state was a main source and target of commercial and financial crime, with the private sector playing a secondary role. Today, the country has opened up and the economy and commerce, especially, are highly deregulated, making the state and public sectors, and society in general,

both targets and sources of money laundering. The country has become attractive for this because of its weak financial regime. In Tanzania anyone can introduce into the country any amount of money in cash without any questions being asked. On the other hand, corruption in the state and private sectors facilitates capital flight. Tanzania does not have enough trained police personnel to man its extensive borders, nor does it have enough customs officers to stamp out the smuggling of diamonds, gold, tanzanite and other precious stones, and foreign currency. Proceeds from illicit activities form the backbone of internal and external money laundering.

## **The nature of money laundering in Tanzania**

Money laundering in the Tanzanian environment has two dimensions: the national or domestic and the transnational.

The domestic dimension of money laundering is focused on those activities taking place within the national territory that target sectors into which illegal proceeds are channelled or where they are invested.

In the domestic scene, the proceeds of illegal activities are first laundered by injecting them into legal economic activity or transferring them to another country. Tanzania is by and large a cash economy. According to a study by the Bank of Tanzania (BOT),<sup>3</sup> 82% of households kept their savings at home, while 20% had savings accounts in banks, in which they held only 12% of their total savings. In addition, 79% of Tanzanian households were willing and able to save if appropriate products and saving mechanisms were in place. About 94% were willing to borrow more if resources and appropriate methodologies were available. What this demonstrates is that lack of sound financial infrastructure forces people to operate outside official markets and even to engage in illegal financial transactions, including money laundering.

The proceeds of illegal activities are directly injected into the regular economy, in small- and medium-scale business operations, for example, commuter transport and real estate.

The following are the major areas from which domestic money laundering profits are derived:

- corruption;
- misappropriation of public funds;

- tax evasion;
- abuse of religious charities;
- misappropriation of foreign-assistance projects;
- *bureaux de change*;
- land speculation;
- stock theft, car theft, drug trafficking, arms and gem smuggling;
- public procurement and public tender; and
- exchange control violations.

In the above problem areas the domestic scenario is the starting point for all activities pertaining to money laundering in the internal typology.

The following are the major areas from which proceeds are derived for external money laundering:

- tax evasion through over-invoicing and under-invoicing of imports and exports;
- debt conversion;
- misappropriation of foreign-assistance projects;
- public debt payment; and
- fraud from the private economy.

## **Money laundering: A conceptual problem**

Money laundering was defined in 1998 by the United Nations Office on Drug Enforcement and Crime Prevention as consisting of an attempt to conceal unlawful origin of funds, “in order to invest them with complete impunity in international economic and financial circuits to transform them into lawful earnings”. It has been suggested that there are three steps in the money laundering process:

- cash is injected into the legal economic activity of the (foreign) country, or, alternatively measures are taken to transfer the money to another country;
- funds are invested offshore; and then
- laundered money is injected back into the regular economy.

Tanzania has a cash economy. Many people keep their cash at home and pay in cash for most, if not all their business transactions. Thus the above three stages refer to situations where the formal economy is dominant. It should also be noted that due to worsening economic conditions, the economy is becoming increasingly informal, and this is minimising the significance of the formal economy.

Because the standard international definition of money laundering is centred on the modern industrial, commercial and financial sectors, policy makers in developing countries have always tended to look at money laundering as simply an external problem, with externally-based criminal groups trying to conceal their ill-gotten gains by using the internal banking and investment institutions of target countries. However, it is possible that money legally obtained could be used to finance illegal activities, just as the proceeds of illegal activities are used to finance legal economic activities. Money laundering is a complex process, especially in developing areas where data and records are not kept, corruption is rife, institutions are fragile and, in many instances, the rule of law is not respected.

## **Channelling and laundering illegal profits**

Money laundering schemes in an underdeveloped economy may include physical movement of cash or property. For example, the gem tanzanite is physically transferred from its source to a destination where it is processed (cut) or sold. In the case of currency transfers, the informal exchange system known as the *hawala* system is often used. In the sending country, the sender pays in local currency into the informal processing organisation and the money is credited or paid in cash to the recipient in a foreign country, without physical cash necessarily being transferred. At the time Tanzania liberalised trade and started on economic reforms, it does not seem to have occurred to policy makers that money launderers could exploit new economic openings and thus pose a danger to economic governance. Tanzania experienced large-scale money laundering in the early 1990s when foreign banks were allowed to open branches in Tanzania. One of the early banks to open a branch in Tanzania was Meridien Biao, owned by an American international money dealer Greek origin, Andrea Sortis Sardanis. In a short time the bank had accumulated huge deposits in Tanzania, many of them from government departments and parastatal companies. Sardanis also bought a British Construction firm, Wade Adams, which also obtained construction tenders from parastatal companies in Tanzania, including the National Insurance Corporation, Tanzania Breweries and Tanzania Hotel Investments.

The amount of money deposited into the bank is estimated at US\$285 million, being deposits from government departments and construction projects. Huge amounts of money deposited were siphoned off outside the country illegally and within a short time the bank was declared insolvent. (See Appendix II: Master of deceit)

## **Utilisation of laundered money**

Using the illegal profits of corruption or organised crime for immediate purchases is the method preferred by most people engaged in primitive accumulation, especially when the profits are generated within the country. Within the country, the money is used for:

- real estate;
- safekeeping in (lawyers) trust accounts;
- bearer's certificates from the local financial institutions;
- external remittances;
- legal businesses like limited companies;
- importing junk machinery;
- buying luxury cars;
- sending children to overseas schools;
- making contributions to political campaigns;
- opening businesses in the name of a wife or children; or
- buying shares in privatised companies or going into joint ventures with a foreign company.

## **Types of money laundering in Tanzania**

Policy makers need to have knowledge of the ways in which money laundering is carried out and the extent to which it occurs. This section looks at different types of money laundering. The prevailing economic and operational processes, and the environmental system in which the different types of laundering occur, are complex. The main reason for the complexity is related to the internal and external environments and their distributional impact on the problem of money laundering. There are two main types of money laundering: money laundering in the internal environment and money laundering in the external environment.

## ***Internal laundering***

In internal laundering, a particular country is the base for money laundering activities. The main actors are internally based and the process of money laundering is within the domestic jurisdiction. However, the process and proceeds also have an external dimension, for example when illegal funds are externalised. The main actors include government officials and their allies outside the state system. Their prominence in money laundering stems from the fact that they control the major means of production in the state sector, which also includes the parastatal sector. The bureaucrats controlling and managing the public economy are the main actors in money laundering through bureaucratic and political corruption.

To determine the extent of bureaucratic and political corruption it is useful to refer to the Controller and Auditor-General's (CAG) Annual Reports, which show the pattern of public pilferage and fraud.

State actors collude and collaborate with their allies outside the state system. The basis for these collaborations is that the government is a source of lucrative contract work to private operators and suppliers. Those who enjoy the collaboration operate on the basis of political patronage. Internal organised crime yields proceeds that are laundered internally.

The internal jurisdiction presents criminals with low risk environment because the institutions for monitoring compliance, detecting crime and implementing the law, and the methods and process of doing so, are ineffective. The system leaks from within and this allows the laundering of the proceeds of organised crime within the country to flourish. The external dimensions of money laundering compound the problem when linkages between criminal groups are established.

It is possible to construct a typology of internal money laundering by analysing the areas in which the proceeds of crime are invested. For example, an analysis of the properties and businesses of suspected government officials would show that they conceal illicit funds in the accounts of legal businesses that are likely to produce a heavy flow of cash, such as wholesale businesses, laundrettes, commuter transport, beach hotels and boutiques. On the whole, the trend in Tanzania is that the service sector attracts most investment from bureaucrats in the government.

## ***External laundering***

In the second, external typology, the actors are externally based and use the receiving country as an investment location or a transit location (for example, when funds are channelled into resident banks, laundered through the accounts of shell companies and then sent on to offshore banks). Illegal profits and the proceeds of transnational organised crime move from one country to another according to the logic of global development. The developing areas, because they are low risk jurisdictions, have a high capacity for absorbing illicit proceeds.

The most usual method of transference is to send the money to an offshore centre, where legal constraints are less stringent and policing and judicial co-operation are virtually non-existent. Transnational crimes, which give rise to most transnational money laundering, are drug trafficking and international corruption.

<b>Table 1: The two typologies in terms of environment, qualities and variables</b>		
<b>Environment type</b>	<b>Qualities</b>	<b>Independent variable (typology)</b>
Internal environment	<ul style="list-style-type: none"> <li>• Actors are internally based</li> <li>• Cash economy</li> <li>• Low-risk jurisdiction</li> <li>• Fragile political, legal and economic systems</li> <li>• Direct investments in small- and medium-scale businesses</li> <li>• No effective control structures</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic and cross-border corruption</li> <li>• Misappropriation of public funds</li> <li>• Tax exemptions</li> <li>• Foreign exchange control</li> <li>• Use of religious trusts and foundations</li> <li>• Misappropriation of donors' funds</li> <li>• <i>Bureaux de change</i></li> <li>• Proceeds of organised crime</li> <li>• Public debt repayment</li> <li>• Sale of landed property</li> <li>• Tax evasion</li> </ul>
External environment	<ul style="list-style-type: none"> <li>• Actors externally based</li> <li>• High-risk jurisdiction</li> <li>• High returns; actors seek new avenues for money laundering</li> </ul>	<ul style="list-style-type: none"> <li>• Debt conversion</li> <li>• Banks receiving funds in order to remit them to offshore banks</li> <li>• Tourist industry: package tours</li> </ul>

In the case of Tanzania, to measure the extent of external money laundering each typology must be constructed as an independent variable, whereby the actors and transactions in each typology are distinct from other typologies.

It is possible to measure the extent of money laundering in each typology, especially in those involving the public economy sectors. It is more difficult to measure the extent of money laundering which takes place in the private sector. International organised crime groups have huge amounts of cash, which they have been known to use to fund their activities and legal business as a means of concealing ill-gotten funds.

International trading companies and multinationals bribe government officials to award them contracts, especially for projects in developing areas. They usually do this by paying 'commission'. A news correspondent, Peter Reeves, states the following: "Bribery and corruption lead to a society where economic and political decisions become twisted. They slow social progress, hamper economic development and drive up prices for products and services".<sup>4</sup>

## **Examples of internal money laundering in Tanzania**

### ***Corruption***

In 2000 Transparency International listed Tanzania as the ninth most corrupt country in the world. The state sector was singled out as the most corrupt sector, with law enforcement agencies, especially the police, the judiciary, the Revenue Authority and Public Procurement topping the list of the most corrupt departments in the state system. Ministers, permanent secretaries and senior civil servants build mansions, form business partnerships with foreign companies, and send their children abroad to study at expensive schools. The wealth they accumulate is far above what they officially earn. At the time of writing, only one former minister and a few senior civil servants from the Ministry of Communication had been charged with corruption. A number of senior government officials have accounts with foreign banks. Some have bought flats and mansions abroad.

### ***Misappropriation of public funds***

Every year the Controller and Auditor-General (CAG) issues the Annual Audit Report of Expenditure of Government Finances. Her reports for 1998/1999 and 1999/2000 show a trend of increased unauthorised expenditure. Payments were made from project accounts earmarked for special objectives as loans or advances and the money was used for purposes other than those

originally intended. The funds were never repaid into the relevant creditor accounts. In other words, public funds were diverted from legitimate use.

The reports also mention the unaccounted for and unauthorised expenditure of tens of billions of Tanzanian Shillings (TSh) specifically in public procurement. This lack of accountability and control has caused the government loss of huge amounts of public and donor funds. According to the CAG, Blandina Nyoni, “payment documents submitted by the Ministries and departments for goods, services and utilities amounted to US\$106.2 million but after verification the figure dropped to \$88 million”.<sup>5</sup> The amounts involved might appear small, but they are not negligible in Tanzania’s underdeveloped economy.

Government departments have been occasionally defrauded, such as by the use of ghost workers. In the 1998/1999 financial year it was discovered that 20 000 ghost workers had cost the government up to US\$2.4 million annually since 1990. This immense loss of public resources is the work of organised criminal groups within the state sector.

The most recent public procurement case involves the awarding of a tender for importing maize for food security (Ref. No. MA 116 of 31 March 2000). The Parliamentary Public Accounts Committee, which scrutinised the accounts of the Ministry of Agriculture and Cooperatives, discovered that there had been a conflict between the Ministry of Agriculture and Cooperatives and the Central Tender Board concerning the awarding of the tender. The conflict came into the open when both institutions placed advertisements in the newspapers at different times calling for open public tenders for the importation of white maize. The conflict and confusion that ensued necessitated cancellation of the contract that had been awarded to M/S Southern Atlantic Grains Agents (Pty) Ltd of South Africa. The company eventually brought a civil case against the government for breach of contract. The case was heard in the High Court of Tanzania (Case No. 12 of 1999).

**Table 2: Unauthorised expenditure in government departments  
1999–2000<sup>6</sup> (in million \$)**

Prime Minister’s Office (disaster relief)	12.1
Agriculture	606.0
Lands	34.0
Local government (roads fund)	1.0

The Public Accounts Committee also discovered that the government had unilaterally decided not to allow competitive bidding. Rather, it had chosen to shortlist companies with a proven record, integrity and a sound financial base, which could import maize within a two-week period.

**Table 3: Companies contracted to import maize**

Company	Quantity	Value (US\$)
<b>EECO Traders (UK)</b>	<b>25,000 tons</b>	<b>4,187,500</b>
<b>SKY Coach Ltd (DSM)</b>	<b>25,000 tons</b>	<b>3,275,000</b>
Mbutano Investment (DSM)	25,000 tons	3,646,750
André & CIE S.A. (Switzerland)	100,000 tons	19,075,000
Total	175,000 tons	30,275,250

### ***CAG's Annual Report 1999–2000***

Observations from the report of the CAG show the following:

- The exercise of selecting companies to import and sell maize to the government did not adhere to laid down regulations concerning public procurement. *It does not show that the government decision to import maize was prompted by a disaster.*
- The sale of the contract to the third party was dubious, which is how Tanzania Packages Manufacturers (1998) Ltd came into the picture when M/S EECO Traders reneged on the contract. The discovery that the contract sale was dubiously done between the parties meant that the government had to forego over US\$29,000, its commission for opening Letters of Credit with the National Bank of Commerce in favour of M/S EECO Traders.
- There was a shortfall in the loads of maize imported into the country of 1,662,985 tons. The government did not bother to recover the shortfall.
- Two private companies had been contracted to bring maize worth US\$6 million into the country. The government lost over US\$83,000 in opening Letters of Credit, because of their cancellation due to changing of company in which the letters of credit had been designated.
- Over US\$1,113,788,942 was paid to Tanzania Package Manufacturers (1998), a company owned by a Member of Parliament. The auditors could not verify whether any contract existed between the government and this

company, or whether the maize paid for had actually been imported into the country.

### ***Tax exemptions***

In the first half of the 1990s, tax exemptions and uncollected taxes were estimated to be 70% of the total revenue for the financial year (1994). In 1994, the then Minister of Finance admitted to Parliament that donors had cut off aid because of tax exemptions. He admitted that exemptions had occasioned the loss of TSh80.4 billion in revenue between April and September 1994. TSh30.33 billions of this was due to exemptions, TSh31.48 billions was due to uncollected taxed, and another TSh18 billion had been lost for other reasons. It appears that those who have the power to grant tax exemptions are liable to receive payoffs from those who receive them, and then launder the kickbacks through foreign banks in London, Zurich and Luxembourg.

### ***Foreign exchange control***

In 1988, Capt. Aziz, a pilot with the Zanzibar Air Charter Company, was caught red-handed with thousands of US dollars that he was intending to smuggle out of the country for an unnamed person. He could not account for the origin of such a huge amount of foreign currency. The money was seized because it contravened foreign exchange control regulations. In court, Capt. Aziz pleaded guilty and the money was forfeited. He received a prison sentence of twenty years.

### ***Use of religious donations and informal lending organisations***

Tanzania has a large number of citizens of Indian origin. They have kept their faiths and traditions, which they practise exclusively within their own sects. There have been claims from members of some sects, for example the Bohras, Ithnasheris and Ismailis, that they are forced to make contributions to the sects, ultimately to be handed over to religious leaders on their annual or biennial visits. The money collected is advanced to leading businessmen with foreign accounts, from which an equivalent sum in foreign currency is credited to the benefactor, the Religious Supreme Leader or Authority. No physical transfer of Tanzanian currency is involved, but the money collected by the religious institutions is presented as gift to the visiting titular head. Since the money cannot be sent abroad, it is advanced to businessmen of the same religion who have external accounts abroad and are obliged to pay the supreme leader of their religion.

This category is believed to include certain trusts and foundations, for example Islamic, Christian and Indian sub-types that have international connections or are dependent on donations from abroad. Since the Iranian Revolution of 1979, there has been an enormous increase in the number of religious trusts and foundations. Their activities do not seem to be monitored, especially their access to external financial resources and accountability.

In April 2002 the BOT circulated an internal memo to local banks instructing them to monitor and scrutinise forty-eight bank accounts belonging to various individuals and companies. This measure was prompted by accusations by the United States government that certain individuals and religious bodies were involved in funding international terrorism. An article in the *East African* claimed that "One director of a firm opened a bank account with \$100, a week later deposited \$2.58 million".<sup>6</sup> A commercial bank in which the money was deposited alerted the BOT, which immediately froze the account. Up to the time of writing, four accounts belonging to Islamic trusts and foundations have been frozen. The identities of the individuals, trusts, foundations and companies that are under investigation could not be verified with the BOT. Furthermore, it is difficult for investigators to track exactly who has received money and from whom, because the transactions are usually conducted in unmarked cash. However, it is clear that the banks in Tanzania report some suspicious deposits and transactions to the BOT.

Informal financial organisations operate in the same way as the hawala system found among the Indian and Arab communities of Tanzania. Like the system employed by some religious bodies, hawala involves the movement of value from one location to another without any money being physically moved. The informal or alternative remittance system operates on the same principles. Money is deposited in a particular currency with an agent in a particular location. A token or special receipt is issued, which is then sent to the place to which the money launderer wants to transfer the money. The token is presented to another agent and exchanged for the amount of money in the required currency indicated on the token. This amount will be equal to the amount originally deposited, less fees and charges.<sup>7</sup> In Tanzania there are thousands of Indians, Pakistanis, and Shirazi of Iranian origin, who still acknowledge their roots in their home countries. It is common for them to follow the financial and business traditions of their countries of origin.

Those who control informal organisations are businessmen involved in import/export operations, who accumulate money abroad by over-invoicing and under-invoicing the goods they import and export. The currencies involved are Tanzanian shillings, paid at source, and Indian rupees or US dollars, paid to the intended person or credited to his or her account in an overseas bank.

### ***Misappropriation of donor funds***

Donor funds are sometimes misappropriated, especially in projects that are implemented at district level, for example, health projects. Tanzania has been decentralising its administration by making the district the strategic focus for public health service delivery and public medicare. Thus, in the 1990s and at the beginning of the 21st century, districts became responsible for receiving resources, distributing them equitably to meet local needs and ensuring accountability to local communities. Donors select districts that have critical development problems and provide funds to implement projects, specifically the healthcare project through the District Council.

Funds for countrywide campaigns underwritten by donors, for example the anti-polio campaign, are transferred to the District Councils to meet the financial requirements of the public health campaign.

The Irish-assisted project in Kilosa District came under the spotlight in 2001. The administrators of the project, the District Council officials, had misappropriated project funds to the tune of TSh25–50 million by over-invoicing on local purchase orders. This is but a small example. As Tanzania is one of the major recipients of donor funds, misappropriation of funds is rampant and money laundering is rife in this sector.

Another case involved the Ministry of Health headquarters, where foreign donor funds earmarked for the districts and already advanced to them were recalled so that they could be used for purposes for which they had not been intended. The amount involved is estimated to be in the tens of millions of Tanzanian shillings. Donors threatened to call off the anti-polio campaign in 1999. This would have embarrassed the government nationally and internationally. The Principal Secretary in the Ministry of Health was forced to resign. The government departments that used to receive huge amounts of donor funds faced the problem of accountability. These include the departments of Transport and Works, Health, Education and Agriculture.

*The Warioba Report on construction projects*

A large proportion of the funds used in the public works sector come from donors. The public construction sector is a goldmine for fraudsters and money launderers. The 1996 Presidential Commission of Enquiry on Corruption, headed by Judge Warioba, observed that it would be prudent to have one technical centre to receive and analyse data from different sources. There is no institutional capacity for detection, data analysis or research.

Project costs have been increasing from between 50% to almost 200% for various reasons.<sup>8</sup> In the report, Judge Warioba observed the following about 27 road and bridge construction projects, signed between 1992 and 1995:

Of these, 24 projects were either completed or the estimated costs up to completion are known. The total costs of the 24 projects as reflected in the contracts at the time they were concluded was TSh61,427,083,819.73. These costs have increased to reach TSh97,499,392,388.19, a difference of TSh36,072,308,568.46 which is equivalent to an increase of 58.7% over the original contract costs. Twelve projects have recorded an increase of 150% above the original contract prices. The increase of TSh36.1 billion could have built 278 kilometres of bitumen roads if the average costs of TSh129.9m/kilometre which was envisaged in a road construction contract signed in 1994 was maintained.

The programme for the rehabilitation of the Dar es Salaam roads, which alone involved seven of the 24 contracts mentioned in the preceding paragraph, cost the government a total of TSh8,910,543,233.60. The estimates in the original contracts came to TSh3,036,234.80. This is an increase of TSh5,874,309,073.80, which is 193.5% more than the original contract costs. The lowest increase is 101% for one project; for the remaining six, the increase is over 150%.

The reasons given for these heavy cost increases include the following:

- increases in the price of goods and services;
- increases in the scope of work due to changes in specifications and design standards;
- increases in the scope of work due to extra tasks which were not included in the original contract (for example construction of culverts and changes in the width of the road or the thickness of the gravel or bitumen layer);

- additional road deterioration between the time of design and the start of construction;
- increase in project duration; and
- penalties for delays in paying contractors for completed and certified works.

### *The case of Francesco Tramontano*

Francesco Tramontano, an Italian national, is alleged to have organised a group of people to defraud the Belgian Development Office of funds amounting to US\$1.8 million. The funds were earmarked for development aid to Tanzania. It is alleged that Tramontano and his associates swindled the Development Office out of the funds by using falsified documents. Efforts to extradite him to Belgium have proved futile. Tanzanian courts of law have ruled that he cannot be extradited because the Belgian papers seeking his extradition referred to him as 'the suspect' and not as 'the accused', as required by the conditions of the extradition Treaty between Tanzania and Belgium.

### ***Bureaux de change***

When trade liberalisation and financial deregulation were instituted, bureaux de change became the main instruments for siphoning out the proceeds of illegal activities. In 1992 the Act establishing the *bureaux de change* was passed by Parliament. Over 100 *bureaux* were registered between 1990 and 1995. They were allowed to receive and make remittances to and from foreign countries for things such as imports, educational services, and medical treatment. However, this was stopped in 1997 because it was discovered that *bureaux* had become the main conduits of capital flight. Today bureaux de change still informally remit money (through a *hawala* type system) and they can also be used for laundering illicit funds.

The commonest abuse of the system is concerned with the travel allowance. A person travelling outside Tanzania can purchase hard currency equivalent to US\$10,000. But most travellers do not have enough money to use up their entire entitlement. This allows syndicates and couriers to prey on travellers. They find genuine travellers prepared to co-operate and pay them a commission of one or two hundred dollars. In return the travellers undertake to apply for the maximum allowance of US\$10,000, and to turn it over to the benefactors. The extra money is thereafter taken out of the country for laundering.

Dubai used to be the main centre in which Tanzanian businessmen used to

launder money. The laundering was made easy because of the existence of Indian and Pakistani criminal groups, knowledgeable in the business of money laundering. These groups establish links with similar groups in Dubai and other Gulf States. Usually, they exchange goods. Since the 11 September terrorist attacks, the laundering route has shifted to India, Jakarta and Hong Kong, countries in which cash transactions apparently raise few suspicions.

In Southern Africa, Malawi is the location preferred by Tanzanian money launderers, because in that country it is relatively easy to use the electronic banking system to send foreign currency to any part of the world. Foreign currency, preferably US dollars, is physically transferred illegally from Tanzania to Malawi. The total amount that has been laundered in this way has not yet been determined, but it could be in hundreds of thousands or millions of US dollars.

Another way in which money has been laundered is as follows: a bureau *de change* will sometimes not deposit the proceeds of its daily or weekly transactions with the Central Bank; instead, the owner disappears with millions in foreign exchange. Although the money belongs to the owners of the bureau *de change*, not depositing the foreign currency and physically transferring it without BOT authorisation amounts to money laundering. The case of the Expresso bureau *de change*, whose owner disappeared in 1999 with millions of US dollars, is a case in point.

### ***Assets sale as form of money laundering***

Some industrialists in Tanzania declare their business insolvent and sell them to foreign buyers, who pay them through foreign banks.

### ***Proceeds of organised crime: Car theft, drug trafficking, arms smuggling and gem smuggling***

The proceeds of organised crime (such as car theft, drug trafficking, arms smuggling and gem smuggling) are used to repeat and consolidate illegal activities.

Organised criminal groups have been known to use the proceeds of illegal activities to buy gems and gold, which they smuggle out of the country and sell to obtain foreign currency, which they then remit abroad. Money launderers use the ingenious device of welding bars of gold onto the bumpers of their cars. They drive these cars to neighbouring countries, where they remove the gold and sell it. Then, through the banks, they remit hard currency abroad.

Sophisticated drug syndicates that deal in narcotics are also involved in crimes like money laundering, vehicle theft, diamond smuggling, or prostitution.

As mentioned earlier, money laundering within the country is very difficult to trace because of the largely cash-based economy. It is very easy to launder illegal proceeds by undervaluing assets or by making the proceeds over to relatives. The businesses which are preferred for the investment of illegal proceeds within the domestic economy are those in which cash is generated daily, for example, laundries, wholesale businesses and transport businesses, such as commuter transport in urban areas.

Tanzania is losing a substantial amount of revenue because of gem smuggling. Take the case of tanzanite, a blue gemstone found only in a tiny patch of graphite rock in Tanzania. Over the years, tanzanite has grown in popularity among US consumers, who now account for about 80% of its sales. There is evidence of under-declarations of exports and smuggling. In 1999–2000, the US recorded imports of \$328 million worth of tanzanite, but Tanzanian official figures show only US\$31 million worth of exports. Export figures recorded in 2002 reflected a decline, to US\$4 million. Yet India, to which most of the rough tanzanite was exported, showed exports to the value of US\$28 million for that year.<sup>9</sup> Much of the difference between the export and import figures passes through the parallel economy and is eventually laundered.

### ***Sale of land or landed property***

In its report, the Warioba Commission observed that:

The Government has been disregarding its own laws by allocating plots for the construction of tourist hotels to rich people on areas which were specifically reserved for community services and in violation of Master Plans-particularly on the coastal belt.<sup>10</sup>

According to land regulations issued by the Minister of Lands in May 2001, local governments are to inform the Commissioner for Lands about urban land identified for private development. A notice is to be published in daily newspapers in both official languages (Swahili and English). After 21 days, the identified and advertised plot is ready for development, and the development is to be supervised by a licensed estate agent. In most cases this procedure has not been followed. According to Tanzanian Land Law, land belongs to the state. This stipulation has effectively put all land, including prime land, in the hands

of the land officers, senior government officials and the president. These officials acquire land and dispose of it at will to companies and rich individuals wishing to possess prime land, especially in urban areas.

Since trade liberalisation was set in motion and foreign investors began to take advantage and rush to invest, houses in the country and land have attained premium prices. Unscrupulous businessmen also took advantage of the situation. Private sale arrangements are made where a nominal amount is quoted as the value of land or landed property. The real market price amount is paid into an overseas bank account. Foreign companies that invest in the hotel and tourism industry are involved in this type of 'capital flight' scheme. The White Sands Hotel and the Sea Cliff Hotels, owned by Indian and South African companies, were built on land not sold under competitive tender. Rather, it was bought from people in high office and the money was paid into their overseas accounts, without the taxes and other revenues being paid.

### ***Tax evasion***

At the time of writing, there are only five major import/export companies in Tanzania, all of them based in Dar es Salaam. They account for over 60% of all consumable imports. These companies survived the difficult period when the state controlled the major means of production and service. They have established internal and external business networks, to benefit from the experience garnered under Tanzania's old dispensation. They can take on the system at will, either by manipulating the official channels on the mainland or by going through Zanzibar, where very little monitoring of import and customs regulations occurs, partly because of the collusion of customs officers and government officials benefiting from non-compliance with regulations. During the period when the donor community isolated Zanzibar (1995–2000), there were voices raised against official and bureaucratic corruption.

These companies import consumables, stationery, oil and oil products from neighbouring countries and further afield. The goods are declared as transit goods, but are diverted to the domestic market and sold for less than similar goods on which taxes have been levied or else they are sold at a price that includes the levy, but the tax is never actually paid.

In other instances there is collusion between manufacturers and importers. The Warioba report states:

The foreign companies which undertake pre-shipment inspection inspect the goods in the factories to satisfy themselves with the quality, quantity and price of the relevant goods. Some importers have been colluding with the manufacturers and have imported goods of a different quality from those originally inspected by the companies.<sup>11</sup>

Other forms of tax evasion include under-invoicing and over-invoicing. The following tables give an idea of the pattern and extent of these practices in the importing and export of goods between Tanzania and the United Kingdom.

Maliyamkono and Bagachwa estimate that Tanzanian imports from Britain were under-invoiced by 18.7% in 1985 and over-invoiced by 8.1% in 1986. They

**Table 4: Over-invoicing of imports into Tanzania from the UK<sup>12</sup>**

Year	Recorded imports: Value in millions of Tanzanian shillings	Data discrepancy %	Value discrepancy in millions of Tanzanian shillings
1987	8,518	-34.70	-2,955.00
1988	1,468	-20.30	-298.0
1989	23,912	-9.30	-2,234.00
1990	34,104	+4.7	1,603
1991	68,002	-62.60	3,884

**Table 5: Under-invoicing of exports from Tanzania to the UK<sup>13</sup>**

Year	Recorded exports in millions of Tanzanian shillings	Data discrepancy %	Value discrepancy in millions of Tanzanian shillings
1987	1,978.00	-29.20	-577.60
1988	3,421.00	-14.10	-482.40
1989	6,267.00	+23.5	1,472
1990	8,578.00	+2.1	180
1991	20,244.00	-17.70	+593

put the extent of under-invoicing at TSh2,471 million (about US\$65 million).<sup>14</sup> What this means is that those requesting foreign exchange for imports from the Treasury often over-invoice as a way of obtaining more foreign exchange from the Central Bank, while those who import goods using their own funds under-invoice as a tax evasion strategy.

## ***Terrorism***

Tanzania is a peaceful country and has enjoyed political stability since independence in 1961. However, after 1979, when the Iranian Revolution broke out and the first Islamic state was declared, Tanzania, with a large number of Muslims among its population, started to receive visits from foreign Muslim preachers from Iran, Pakistan, the Gulf States and Sudan. These preachers began to form Islamic cells for proselytising. Foundations and trusts were formed by persons outside Tanzania to undertake Islamic projects, which included building mosques, schools and hospitals, and also extending some assistance for the alleviation of poverty. This marked the beginning of an inflow of foreign capital. Tanzania has traditional economic and commercial links with the Gulf States. Many former Tanzanian citizens of Arabic origin who fled in the wake of the Zanzibar Revolution took up residence in the Gulf States, especially in the United Arab Emirates. Furthermore, Indian merchants in Tanzania use Dubai as a centre for their financial and business transactions. Thus the social ties between Tanzania and the greater Muslim community are strong, and the economic potential of Tanzania is well known among religious, business and other interest groups in the Arab and Islamic world.

In the wake of 11 September 2001, *The Wall Street Journal* reported that Osama bin Laden loyalists were buying tanzanite in Tanzania, smuggling it out and selling it to finance the Al-Qaeda organisation. Al Qaeda has been linked to terrorist acts in various parts of the world, including Tanzania. A US State Department spokesman observed that there was no evidence at the time that any terrorist organisation was using tanzanite to finance terrorism. But he said that Al-Qaeda had undoubtedly previously sold tanzanite to finance its operations.

Reference to tanzanite trading emerged in the 1998 trial of Wadih El Hage, a Lebanese-born resident of Arlington near Dallas. Prosecution authorities described him as Bin Laden's personal secretary. He was sentenced to life imprisonment after being convicted of conspiracy in the 1998 bombings of the US

embassies in Kenya and Tanzania. According to the journal he kept, he travelled to Europe and the United States in the mid-1990s, trying to sell tanzanite. Given the fact that about 90% of tanzanite is sold through the parallel markets, it is no wonder that many different people and groups, including smugglers and terrorists, have attempted to exploit the situation. Since tanzanite was suspended from sale in the main US jewellery markets, the government of Tanzania, miners and dealers have made frantic efforts to ensure that the gem will never again fall into the hands of terrorists. They have developed a joint strategy for identifying the source of the gem, to keep unidentified gems out of the open market.

### ***Participants in internal money laundering***

The following categories of individuals and organisations participate in internal money laundering:

- local and foreign organised crime groups (proceeds of crime);
- businessmen (money gained from tax evasion);
- politicians (contributions to political campaigns);
- hotels (money paid to and through tour companies);
- advocates (clients' accounts); and
- government officials (bribes).

### **Examples of external money laundering**

#### ***Debt conversion***

An American citizen, V. Chavda, came into Tanzania and obtained eight sisal plantations under the Debt Conversion Scheme. Debt swapping means acquiring unpaid debt at a discounted rate, paid by the prospective buyer. The local bank, Co-operative Rural Development Bank (CRDB) advanced him over TSh915 million to develop the farms. However, Chavda did nothing to develop the farms and eventually he was declared *persona non grata*. As the money could not be traced, the only explanation is that the investor diverted the funds and remitted them overseas as foreign exchange.

## **Banks**

Banks, by the nature of their transactions and the rapid globalisation of financial systems the world over, are the preferred instruments for quick movement of financial resources, mainly through electronic transfer. Because there is no legislation concerning money laundering, and because staff in the financial sector and in law enforcement agencies lack capacity and know-how, detecting and preventing money laundering is proving a difficult undertaking. A relevant example is that of the Meridian Biao Bank, which was founded with the purpose of taking advantage of Tanzania's lack of experience of international banking at the time of economic and financial deregulation. The bank had a friendly customer service and attracted a good many moneyed people and state companies as clients; huge deposits were made. Eventually the bank lost over US\$30 million of depositors' money. It was claimed that this was because it had been over-exposed on foreign exchange markets. However, the money found its way to offshore banks in the Bahamas.<sup>15</sup>

Organised criminal groups from Dubai, India, Hong Kong, Lebanon, Belgium, South Africa and Russia target Tanzania because of its fragile financial system and the prevalence of corruption among its law enforcement officers. They transfer money through Tanzania to offshore banks in Mauritius, the Caribbean and South-East Asia. In Tanzania itself, Zanzibar is a popular location for money laundering activities, which include construction of beach hotels and the transfer of financial resources.

In the past, banks in Tanzania were not concerned with the sources of their clients' funds. Until recently, they were allowed to keep cash safe for people who were not their regular clients, under the bearer's certificate. Depositors could withdraw money as they willed without any questions being asked, subject to paying commission. However, this practice was stopped in 2000. The BOT issued a circular on money laundering control to Tanzanian banks and financial institutions (attached as appendix).<sup>16</sup> The circular includes proposals for self-regulation and the reporting of suspicious transactions. However, it is not backed up by legislation that deals specifically with money laundering, although Tanzania is a signatory to the Palermo Convention, which contains specific provisions against money laundering.

Self-regulation can only be effective when there is an integrated and coordinated system of control. Banks find it difficult to comply with the self-

regulation measures because there is no central agency to receive data, analyse it and take prompt action. Furthermore, the 'know your customer' rule has practical implications and costs for the banks concerned.

### ***The tourist industry***

At a press conference in July 2001 the Minister of Finance stated that money laundering was a problem in Tanzania because it was not effectively covered by the 1991 Proceeds of Crime Act, hence the government's decision to introduce a Bill on money laundering. He said that money was laundered through investments in real estate, hotel developments and tourist facilities. For example, foreign businessmen had recently built a number of exclusive tourist beach hotels in Dar es Salaam and Zanzibar. The value of these assets was bigger than what was declared at the time of applying for investment approval by the Tanzania Investment Centre. There is a big possibility that money could be laundered through such investments.

It is estimated that the government loses 20% of the revenue from the hotel industry annually because hotel owners evade tax by failing to record the actual number of tourists who occupy rooms. Likewise, tour operators do not reveal the details of payments for their tour packages, i.e. how much is paid abroad and how much is actually paid to hotels in Zanzibar or Tanzania. In an exclusive interview with the press, senior officials of the Zanzibar Ministry of Trade, Industry, Marketing and Tourism and the Zanzibar Revenue Board (ZRB) stated that most tour operators were cheating the Zanzibar government.

Currently, package tour firms pay just a fraction of anticipated revenues because of gross under-quotes. Prime beach establishments to date earn between 1.2bn/- (US\$1.2 million) and 1.8bn/- (US\$1.8 million) every year when they should be logging at least 20bn/- (US\$20 million) to 25bn/- (US\$25 million), according to industry sources.

According to the ZRB Commissioner, Mr Nassor K Pandu, brochures distributed in Italy quote the price of a room at US\$100 or more for prime beachfront facilities, which tourists pay though most actually owe a mere US\$35–\$40 per head. This practice should be regarded as illegal because the money is legally paid but government revenue that would accrue on the basis of its quantum is cleverly claimed by agents. They defraud the government, hotel owners and

tourists. Mr Pandu did not say what could be done to rectify the anomaly. He further stated that the package tours that target four- and five-star beach resorts scattered along Zanzibar's rural beachfronts seem mainly to benefit the tour operators rather than the government, owing to tax evasion.

### ***Participants in external money laundering***

- offshore banks (in the case of Tanzania, it is not the last destination but a transit point to Seychelles, Mauritius, South Africa and the Gulf States offshore banking centres) ;
- foreign investors (it is possible to physically bring in large volumes of cash in foreign currency or use the banks to periodically remit limited amounts of cash into private account(s) in different banks or using proxies or shell companies which purport to have exported goods);
- foreign contractors; and
- government procurement agencies.

### ***Extent***

The extent of laundered financial resources is very difficult to measure. However, by identifying the areas in which laundered money is invested and by whom, it is possible to measure the extent of money laundering in the private economy and public economy in Tanzania.

- In 1984, the Tanzanian government liberalised trade and declared that people with foreign currency were free to import goods into the country. They would not be asked where and how they got their funds. Since then, large volumes of imported goods worth hundreds of millions of US dollars have been coming into the country, far surpassing goods imported through foreign currencies released by the BOT.
- A huge amount of capital has been invested in real estate and hotels. Msasani-Mikocheni Mbezi low-density corridor is a showpiece of upmarket houses in Dar es Salaam. The houses belong to government officials and parastatal executives, not all of whom can name lawful sources for their money. Many houses built in these areas remain unoccupied because most people cannot afford the high rent. Thus billions of Tanzanian shillings used to construct such houses are tied up as idle capital, not serving any development purpose.

- The amount expended in buying diamonds and gold for smuggling out of the country to exchange for hard currency is colossal and runs to millions of US dollars, as the case of tanzanite shows.
- The type of businesses run by government officials, mainly in the service sector, shows some huge investments, for which capital must have been laundered through political and bureaucratic corruption.
- Foreign exchange is used to open boutiques and launderettes for the newly rich class. The goods sold in these shops are expensive imports, which are bought with foreign exchange and cater for the rich.
- Shares are bought in privatised companies or joint ventures are engaged in with foreign companies.
- Huge amounts of money obtained from kickbacks and political corruption are deposited in foreign banks.
- Huge amounts of money are expended on buying luxury cars.
- The new rich class take their holidays abroad and spend huge amounts of money on sending their children to school outside Tanzania.
- Businesses are opened in the name of spouses and/or siblings.

## **Legislative mechanisms for preventing, detecting and controlling money laundering**

Tanzania has taken a number of measures and passed a series of Bills to fight corruption, organised crime and money laundering. These include:

- the establishment of the Permanent Commission of Inquiry, or Ombudsman, 1966;
- the Foreign Exchange Control Act 1966;
- the Anti-Corruption Act 1971;
- the establishment of an anti-corruption squad in 1975;
- the Economic Sabotage Act 1983;
- the Economic and Organised Crime Act 1984;
- the Proceeds of Crime Act 1991;
- the Leadership Code (Declaration of Assets) Act 1995;

- the appointment of the Presidential Commission of Inquiry into Corruption, 1996;
- the BOT Circular to Banking and Non-banking Financial Institutions, No. 8 of 2000, on Money Laundering. A Bill on money laundering is forthcoming;
- the Drugs and Illicit Traffic of Drugs Act 1995;
- the Arms and Ammunition Act 1991;
- the Mutual Assistance in Criminal Matters Act 1991; and
- the Tanzania Intelligence and Security Act 1998.

In one way or another these Acts and regulations directly or indirectly target the proceeds of corruption and organised crime, and money laundering. Their focus is on corruption. Earlier concerns were with corruption within the state sector, corruption on the part of public officials, and abuse of power by officials. Concerns with organised crime, the proceeds of crime and money laundering were a later development. The Prevention of Corruption Act (1971) covered a good deal of ground. It provides for preventive detection, requires persons under investigation to give an account of their properties and allow investigation of their bank accounts, prohibits transfer of advantage or property corruptly acquired, and it provides for forfeiture of assets.

During the period when the Prevention of Corruption Act was passed and afterwards, the government focused on the domestic scene, believing that it could control corruption and organised crime from within. Over the years, corruption has become endemic because cross-border corruption defies national laws and because under the common law it is very difficult to establish that corruption has occurred in the first place.

The Foreign Exchange Control Act was passed to stave off the capital flight that is common in transitional societies which experience economic and social stresses, especially when the state exercises too much control, as happened in Tanzania when socialism was an immediate objective. Tanzania started to experience economic stresses and decline from the mid-seventies. The unavailability of foreign exchange and the failure of the import substitution strategy, made economic conditions precarious. Businessmen, mainly those with external connections, were buying foreign currency and smuggling it out of the country for depositing in foreign banks. It was a criminal offence under the Foreign Exchange Control Act to do this. Smuggling money out and channel-

ling it into foreign banks constituted money laundering beyond the immediate national jurisdiction. This practice was mainly done by the real physical transfer of foreign currency, mainly US dollars.

The passing of the Proceeds of Crime Act (1991) was prompted by an increasing number of incidents of drug trafficking and corruption, in which a good many people seem to have suddenly made fortunes and become rich.

The Mutual Assistance in Criminal Matters Act (1991) is aimed at providing for mutual assistance between Tanzania, Commonwealth countries and other foreign countries in fighting crime. The Act provides for assistance with evidence, the identification of witnesses and the forfeiture of property, and underscores the nature and extent of transnational crime. A complementary Act is the Fugitive Offenders Act (1969). This Act seeks to enable the police of neighbouring countries to operate in Tanzania, for example, to arrest fugitives and prepare for their extradition to the country where the offence was committed.<sup>17</sup>

Internal and external factors have caused the government to review the existing legislation on money laundering, in order to address critical social, economic and political problems. The government wants to be credible and to support the rule of law. International acceptability requires that there must be congruence between governance at national and international levels. The existing problems of organised crime and money laundering have an internal and external dimension, hence SADC countries should harmonise their laws and initiate cross-border strategies.

Tanzania is not a member of the Financial Action Task Force (FATF), but it has acceded to the 1998 UN Drug Convention. It is also a signatory to the SADC Protocol on Drug Control, which lists money laundering as a criminal offence, and a founder member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), whose main responsibility now is to prepare “the necessary legislative framework to incorporate anti-money laundering measures”. The new Bill on money laundering that the Tanzanian government is preparing is guided by the need to harmonise anti-money laundering laws in the SADC sub-region.

## **Institutional mechanisms**

Existing institutional mechanisms for countering money laundering include the National Anti-Corruption Strategy and Action Plan, the Prevention of Corrup-

tion Bureau, banking and non-banking institutions, *bureaux de change*, civil society organisations, and the media. Each of these is discussed below.

### ***The National Anti-Corruption Strategy and Action Plan***

The Tanzanian Government has developed a National Anti-Corruption Strategy and Action Plan. This initiative is aimed at rooting out corruption in both the government itself and in society at large. The government is collaborating with the civil sector to implement this plan, each shouldering responsibilities in its area of competence. The strategy has two aspects, an analytical one and a proactive one. The analytical aspect emphasises institutional reforms. The proactive aspect focuses on raising public awareness. The important thing about this strategy is that it is participatory and action-oriented and facilitates civil society involvement in combating corruption. The government, as a source and target of corruption and money laundering, is centrally placed to play an important role in combating them. However, due to the fact that politicians are directly involved in business and the law is not strong enough, there is a danger that a lack of political will on the part of government to confront on corruption and money laundering may stand in the way.

### ***The Prevention of Corruption Bureau***

The Prevention of Corruption Bureau (PCB) is a law enforcement agency. Its function is to detect and confiscate illegal proceeds, and carry out prosecutions. It is also intended to be an instrument for preventive action and for raising public awareness about corruption. It has to prepare an annual report on the state of corruption in Tanzania.

There have been calls from academics and Members of Parliament for the Bureau to be an autonomous institution, rather than falling under the ambit of the President's Office. Further, it should have the power to prosecute cases, rather than having to seek the permission of the Attorney-General to do so. Up to now, the Bureau still works under the supervision of the President's Office. Due to the fact that political and campaign financing is unregulated, political corruption, considered a major form of corruption, continues unabated.

### ***Banking and non-banking institutions***

Banks and other financial institutions are expected to regulate themselves to an extent. Such self-regulation would include:

- keeping records on all clients, whether they are account-holders or not;
- keeping a register of all transactions;
- investigation suspicious money flows and withdrawals;
- maintaining a transactions profile and keeping a list of suspicious transactions;
- training employees to be aware of suspicious transactions;
- not warning customers who are under investigation; and
- administrative sanctions for non-compliance: this applies to commercial merchant and investment banks in the country, which show laxity and allow acts of illegality to happen within their banks.

### *Bureaux de change*

*Bureaux de change* should require clients to declare the sources of the funds that are exchanged.

### ***Civil society organisations***

Sectoral civil society organisations have been mobilised in the Integrity Programme in the National Anti-Corruption Strategy and Action Plan, to fight corruption at the grassroots level and in policy debate and formulation.

There are quite a number of non-governmental organisations (NGOs) involved in policy debate and advocacy against corruption in Tanzania. Transparency International is an international NGO that carries out research and produces annual reports on the state of global corruption, ranking countries on their level of corruption. It has consistently ranked Tanzania as one of the most corrupt countries in the world...

### ***The media***

The role of the media is to expose grand-scale corruption and money laundering at national level and in the sub-region through investigative journalism. In case of Tanzania journalists seem not to be conversant with the subject of money laundering and therefore not much has been written about this problem.

## **Strengths and shortcomings of the legal and institutional framework in the control of money laundering: A brief outline**

### ***Legal framework***

#### *Strengths*

- Existing Acts cover the major areas but indirectly on money laundering.
- There is a positive perception that money laundering is transnational. There is a move towards harmonisation of money laundering law in the sub-region.

#### *Shortcomings*

- The main shortcoming is that the Acts focus on corruption and drug trafficking, but money laundering is not given priority.
- There is lack of political will on the part of the political leadership and political establishment.
- The Proceeds of Crime Act 1991 was based on common law. Establishing whether a predicate crime has been committed is a problem that makes prosecution difficult or impossible.
- Law enforcement agencies are given little incentive to go into an area or to investigate a politician unless they have the permission of the Chief Executive.

### ***Institutional framework***

#### *Strengths*

- The Prevention of Corruption Bureau plays a dual role as a law enforcement agency and as a creator of public awareness.
- Financial institutions have been given guidelines on reporting, detection and customer profiling, and what to do about suspicious transactions.

#### *Shortcomings*

- Political figures reported by PCB are known to have not been prosecuted after intervention by the Attorney-General on the behest of the President.
- Many corruption cases are quashed or dismissed because of the ambiguity of the Prevention of Corruption Bureau Establishment Act.

- There is no single centre to co-ordinate matters relating to money laundering. It would be helpful to have one technical centre that receives and analyses data from different sources.
- There is no institutional capacity for detection, data analysis and research.

## Notes

- 1 Professor SU Jing Xiang, US—Financial war on terrorism vs international financial system, *Journal of Contemporary Chinese International Relations*, China Institute of Contemporary International Studies, Beijing, July 2002 p 21.
- 2 US Department of State, *Africa and the Middle East, Country Report* p 32.
- 3 Bank of Tanzania *Quarterly Report* 2002.
- 4 P Reeves, Tougher laws to tackle international corruption, *Guardian*, 30 May 2002.
- 5 Statement by Blandina Nyoni, Controller and Auditor General, *Guardian*, 4 July 2002.
- 6 The East African, Bank of Tanzania orders bank account frozen 1—7 April 2002. Tanzania is listed as a country in which some terrorist operatives are transiting or operating. There is increased activity by Police and FBI to try to uncover terrorist cells or operatives, mainly people of Middle East origin involved in irregular activities.
- 7 Tanzania has a big community of Indians and Pakistanis who use the *hawala* and *hundi* system to send money to their countries of origin. A good many people who are involved in these transactions are honest and prefer the system because it is cheap, simple and expeditious. However, organised criminal groups exploit the system to engage in money laundering and probably support terrorist group networks.
- 8 Report of The President on Corruption, December 1996.
- 9 *The Guardian*, 11 July 2003, quoting mining official reports.
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- 11 *Ibid.*
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- 13 Nyangetera, 1995 research on discrepancy concerning under-invoicing of exports to UK, as quoted in ESRF *Discussion Paper No. 11*, 1997, on parallel economy.

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