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## **REPUBLIC OF ZAMBIA**

# **ANTI-MONEY LAUNDERING AND THE COMBATTING OF FINANCING OF TERRORISM**

## **COUNTRY STRATEGY PAPER 2010 to 2012**

**APRIL 2010**

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## FOREWORD

It has been recognised globally that money laundering is a criminal offence and accordingly, Zambia has joined the rest of the world in fighting the vice through the formulation of appropriate strategies.

Zambia is a member of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG), which constitutes like-minded countries committed to the implementation of international best practices for combating money laundering. Following the terrorist attacks on the United States of America (USA) of 11<sup>th</sup> September 2001, and in East Africa in the recent past, the need to counter the added crime of terrorist financing became more prominent and additional standards were defined to cover this new threat.

This Country Strategy is a product of extensive consultation with key stakeholders and it states the broad objectives and specific actions that need to be implemented in order to successfully fight the scourges of money laundering and the financing of terrorism in Zambia, taking cognisance of international best practices.

This strategy shall run for a three-year period and will be modified and updated on a regular basis, thereby allowing an evaluation of progress to date, a statement of additional measures needed, and the modification of existing measures.

The release of this Country Strategy marks a new stage in our efforts aimed at assisting our enforcement and regulatory officials in meeting the challenges that lie ahead.

I am pleased therefore to commend this new Strategic Plan for Zambia, and in this regard urge Zambians to support its implementation.

**Vice President of the Republic of Zambia**

## 1.0 INTRODUCTION

Money laundering and terrorist financing are world-wide phenomena and in Zambia they are criminal offences under the Prohibition and Prevention of Money Laundering Act Number 14 of 2001 and Anti Terrorism Act Number 21 of 2007 respectively. Money laundering refers to the concealing or disguising of the proceeds of crime whereas terrorist financing is the directly or indirectly, unlawfully and willingly, providing or collecting funds with the intention that they should be used or in the knowledge that they are to be used to carry out terrorist activities.

Money laundering is the financial side of those crimes motivated by profit, such as corruption, fraud, dealing in contraband, and schemes to evade tax. Money laundering can also be an adjunct to crimes that are not motivated by profit as in the case of terrorist financing. This often involves diverting legitimate appearing money to finance terrorist and other illegal activities. Money can be laundered through a wide variety of enterprises, such as banks, money transmitters, stock brokerage houses, real property, trusts and casinos.

Generally when criminals or criminal organizations conceal or disguise the proceeds of their crimes by introducing them into the stream of legitimate commerce and finance, they are laundering money. On the other hand, when terrorist or other organizations seek to disguise funds intended to finance terrorism and other illegal activities they are also laundering money. The proceeds of crime and other funds intended to finance terrorist and other illegal activities can originate anywhere in the world and may take many forms. If unchecked, laundering of these funds to give them the appearance of legitimacy not only taints financial institutions but also undermines public trust in their integrity. In an age of rapidly advancing technology and globalization, the uncontrolled laundering of large sums of money can greatly impede the development of a viable financial system, disturb the fundamental financial stability of a government, and ultimately threaten national security. This Country Strategy Paper sets out the elements of a concerted drive against money laundering and terrorist financing

In 2004, the Government of the Republic of Zambia approved the Financial Sector Development Plan (FSDP), a comprehensive strategy that has been formulated to address the current weaknesses in the Zambian financial system. The FSDP aims to guide efforts to realize the vision of a financial system that is stable, sound and market-based and that would support efficient resource mobilization necessary for economic diversification, sustainable growth and poverty reduction. The absence of anti-money laundering regulations was identified in the FSDP as a sector-wide challenge. Further in 2007, ESAAMLG conducted an evaluation of Zambia's AML/CFT regime. The Mutual Evaluation Report (MER) made specific recommendations aimed at addressing the weaknesses in AML/CFT system.

In addition, Government has also ratified the SADC Protocol on Finance and Investment. This Protocol seeks to foster harmonization of the finance and investment policies of SADC member states. Chapter 8 of the Protocol deals with AML measures and requires member states to implement a framework to deal with money laundering.

Zambia's anti-money laundering and the combating the financing of terrorism strategy paper therefore draws on some of the recommendations contained in the Mutual Evaluation Report and

the FSDP and builds upon these recommendations as a basis for outlining the key issues that must be accomplished if the country is to address the challenges posed by money laundering.

## **2.0 OBJECTIVES OF THE COUNTRY AML/CFT STRATEGY PAPER**

In coming up with the recommendations necessary to resolve challenges related to money laundering, the Country Strategy commences by outlining the current framework for combating money laundering and then reviews the existing weaknesses in the framework as well as constraints impeding the full and effective implementation of the framework. The Country Strategy Paper then outlines the various recommendations which must be implemented to enhance the effectiveness of the country's anti-money laundering regime. It begins by outlining some of the key issues that underpin any strategy for combating money laundering before reviewing the current framework for combating money laundering, the weaknesses inherent in the framework, other institutional arrangements for combating money laundering and the recommendations for enhancing the anti-money laundering regime contained in the Mutual Evaluation Report. The Strategy ends with an outline of the short-term and long-term objectives as well as specific action items to be accomplished by Zambia in its fight against money laundering.

Broadly, the goals and objectives of the Country Strategy are as follows;

- To review the pieces of legislation relating to money laundering and terrorist financing in order to bring them to international standards;
- To establish an FIU that meets the Egmont Group standards; and
- To develop AML/CFT regulations and guidelines in order for regulated institutions to effectively implement AML/CFT requirements.

## **3.0 MONEY LAUNDERING TERRORIST FINANCING PREVENTION: A GLOBAL PERSPECTIVE**

The problem posed by organized crime stems from the corrosive effect on markets and governments, caused by its large funds which effectively remain unregulated and outside the mainstream of the financial system. In an age of advancing technology and globalization, the laundering of large sums can disturb financial stability. Criminals naturally target jurisdictions with weak anti-money laundering regulatory regimes which undermine public trust in the integrity of the financial sector and also facilitate corruption and ready concealment of the proceeds.

When money laundering is committed by professionals such as lawyers, bankers, and accountants, ingenious schemes may be used to conceal criminal proceeds and funds intended to finance terrorist activities and create the appearance that they are derived from legitimate sources. Especially targeted are jurisdictions where law enforcement officers lack the training needed to effectively investigate sophisticated money laundering operations.

Strong and effective anti-money laundering laws promote financial integrity by making it difficult to conceal illegal activities. The need for criminals to engage in money laundering creates opportunities for law enforcement to detect crime, as it forces criminals to interact with the commercial and financial sectors, leaving paper trails that can be followed back to them. By aggressively pursuing the money trails left by money launders and terrorist groups, law enforcement can identify and capture those involved, frustrate their criminal purposes and deny terrorist entities the funds necessary to finance further acts of terror.

Terrorist groups raise unique problems for law enforcement. Terrorists usually have non-financial goals such as seeking publicity, political influence, and disseminating an ideology. While they do not seek financial gain as an end, these groups need money to attract and retain adherents and support their activities. Terrorists do rely on ordinary criminal activity, such as drug and gun trafficking, kidnapping, extortion, and currency counterfeiting, to fund part of their activities. However, a much larger portion of their funding comes from contributors, many of whom do not know the intended use of the funds. The international community is working within the context of the Financial Action Task Force (FATF) Nine Special Recommendations on Terrorist Financing to develop strategies to regulate charities and other non-government organizations to prevent their abuse and infiltration by terrorists and their supporters. As part of its strategy, Zambia will continue to cooperate in this development.

Financial transactions of terrorist groups are often camouflaged as legitimate business, social, or charitable activities and typically involve amounts that are too small to trigger application of the notification laws. Wire transfers, money orders, cashier's cheques, and bank drafts typically flow through shell corporations, nominees, and third parties. Such transactions are hard to detect and thus employees of financial institutions become the financial front-line of defense to identify the transactions of suspected terrorists. In April 2002, FATF issued a typologies document, entitled "Guidance for Financial Institutions in Detecting Terrorist Financing Activities," to help assist the financial community to determine how traditional financial systems can and have been misused by terrorists. Methods suggested therein were meant to be incorporated into the anti terrorism laws of countries which adopt FATF Recommendations.

### **3.1 The FATF Recommendations on Money Laundering and Terrorist Financing**

The FATF was created by the G-7 in 1989. FATF's primary mission is to articulate international standards for countries to adopt and implement in the areas of money laundering and terrorist financing. The FATF Forty Recommendations on Money Laundering cover the complete range of measures that should be included in a national anti-money laundering regime, and focus on such areas as regulatory controls, supervisory mechanisms, and criminal laws, as well as international cooperation. Some of the forty recommendations have been incorporated in Zambia's legislation. On October 31, 2001, the FATF issued the Eight Special Recommendations on Terrorist Financing and in June 2003, the FATF unveiled the revised Forty Recommendations that substantially expand the scope and enhance the effectiveness of the international anti-money laundering standards. Further in 2003 a ninth Special recommendation on Cash Couriers was added to the existing special recommendations. Most of the nine special recommendations are yet to be incorporated in Zambia's legislation.

The FATF Forty and Nine Special Recommendations have been endorsed by more than 130 countries and have been recognised by the International Monetary Fund and the World Bank as the international AML/CFT standards. The Forty Recommendations have been recommended for application and implementation throughout the world.

The FATF Forty Recommendations cover four broad areas as follows:

- Legal systems
- Measures to be taken by financial and non-financial businesses and professionals to prevent money laundering and terrorist financing
- Institutions and other measures necessary in systems for combating money laundering and terrorist financing
- International cooperation

The Nine Special Recommendations state that countries should take the following measures as international standards for countering terrorist financing:

- I. Ratify the UN International Convention for the Suppression of the Financing of Terrorism and implement relevant UN Resolutions against terrorist financing.
- II. Criminalize the financing of terrorism, terrorist acts, and terrorist organizations.
- III. Freeze and confiscate terrorist assets.
- IV. Require financial institutions to report suspicious transactions linked to terrorism.
- V. Provide the widest possible assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations.
- VI. Extend anti-money laundering requirements to alternative remittance systems.
- VII. Require financial institutions to include accurate and meaningful originator information in money transfers
- VIII. Ensure that non-profit organizations cannot be misused to finance terrorism.
- IX. Put measures in place to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration system or other disclosure obligation.

Given the novelty of some of the issues incorporated into these new standards, the FATF has been working to elaborate on the Nine Special Recommendations by issuing interpretative notes and best practice guidance to assist countries in applying the Special Recommendations.

### **3.2 FATF and ESAAMLG**

Zambia is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) which is a FATF-Style Regional Body (FSRB). As a condition of membership, ESAAMLG members are obliged to participate in a peer review process called "mutual evaluations." Through this process, ESAAMLG members assess each other against the FATF standards, and develop plans to enhance each member's compliance.

ESAAMLG is designed to bring together representatives from legal, financial and law enforcement to ensure the development of comprehensive national and regional anti-money

laundering and terrorist financing strategies. By joining ESAAMLG, member countries have agreed individually and collectively to work towards the implementation of the FATF 40 + 9 Recommendations on money laundering and terrorist financing; to improve co-operation with relevant international organizations; to study regional trends and share such information; to initiate an evaluation process to identify deficiencies in our laws and to address such deficiencies; and to develop institutional and human resource capacities.

### **3.3 Alternative Remittance Systems**

Zambia is predominantly a cash economy. For this reason, Alternative Remittance Systems (ARS) require immediate attention when formulating an anti-money laundering strategy. Some of the ARS particularly those that are informal such as *hawala*<sup>1</sup>, may be used to move and launder large amounts of money quickly and surreptitiously. In *hawala*, an individual in one country gives funds to a *hawala* broker, who notifies a counterpart in another country, to transfer an equivalent amount of money to a recipient in that country. The transaction occurs informally, outside the regulated financial system, without using financial instruments that would create a “paper trail”. The very features that make *hawala* attractive to legitimate customers – efficiency, reliable access to remote or under-developed regions, potential anonymity, and low cost – also make the system attractive for the transfer of criminal proceeds or terrorist related funds.

FATF Special Recommendation VI extends anti-money laundering requirements to all ARS, requiring us to register or license ARS, and subject them to all the FATF Recommendations that apply to banks and non-bank financial institutions. Meeting this requirement initially will pose a significant challenge, but on the other hand it will significantly enhance information gathering, sharing and financial transparency in the informal financial sector. In order to ensure the integrity and transparency of ARS, Zambia will work towards identifying and addressing the factors that contribute to the use of ARS for legitimate purposes. These factors vary and include the low cost, convenience, security, speed, and ease of access to ARS. Zambia will study existing ARS networks and plan to consider ways to promote and increase the use of the formal system, which would allow better monitoring of compliance with our anti-money laundering laws.

### **3.4 Bulk Cash Smuggling**

Bulk smuggling of cash is perhaps the most common means of transferring funds used by both money launderers and terrorists. Obviously, vigilance at the borders is the first line of defense. Systematically disrupting bulk cash smuggling requires a global approach of international cooperation among officers in intelligence-gathering, law enforcement, customs and immigration to share information about potential money laundering and terrorist financing activities.

FATF Special Recommendation IX specifically requires that countries consider implementing measures to detect and monitor the physical cross-border transportation of cash and bearer negotiable instruments, and the trend in the international community is to mandate inbound and outbound currency reporting at reasonable levels. As part of the AML and CFT strategy, Zambia will continue to improve upon the implementation of such requirements.

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<sup>1</sup> Hawala means underground banking

### **3.5 Trade-Based Money Laundering and Terrorist Financing**

Both terrorist financiers and money launderers may use trade-based mechanisms to raise, launder, and move their funds. Trade-based schemes move money derived from criminal activities or intended for other criminal purposes, including terrorism, by means of commerce in either licit or illicit goods. Criminal organizations often rely extensively on trade-based money laundering schemes to disguise and move the illicit proceeds of crime, by converting the illegal funds to goods that can then be sold in the normal stream of commerce. False invoicing, under-invoicing and over invoicing schemes are used to disguise the movement of illegal funds and to legitimize them.

To counter trade-based terrorist financing and money laundering systems, it is essential that the Government utilise bilateral and multilateral mechanisms, including the sharing of law enforcement tools designed to address trade-based money laundering and terrorist financing schemes. Systematically disrupting such trade-based activities requires a global approach of international cooperation among officials in intelligence-gathering, law enforcement, customs and immigration to share information and as such, Zambia will be working to implement such cooperative strategies.

### **3.6 Outreach and Co-operation with the Private Sector**

Co-operation with the private sector, including banks and trade associations, can be essential to increasing Zambia's vigilance against the abuse of our financial system by money launderers and terrorist groups. Government intends to work with its domestic financial community, including banks, credit card issuers and redeemers, and internet service providers, among others, to enhance their abilities to detect and report possible violations, thereby augmenting the value of Zambia's regulatory regime. In particular, a collaborative approach with the private sector will:

- 1) increasing the amount of information provided with respect to its ongoing efforts;
- 2) provide feedback on the usefulness of the private sector's efforts;
- 3) educate the private sector to recognize suspicious transactions and patterns;
- 4) reinvigorate the partnership between law enforcement and industry to develop "best practices" for corporations to follow and uncover improper transactions and
- 5) enhance ongoing due diligence efforts, while balancing the demands on institutions. These initiatives aim to enhance the ability of both the public and private sectors to insulate the financial system from abuse, while ensuring the free flow of capital and commerce.

## **4.0 ZAMBIA'S CURRENT MONEY LAUNDERING PREVENTION STRATEGY**

### **4.1 International level**

- The Government of the Republic of Zambia did accede to the UN Single Convention on Narcotic Drugs 1961 as amended by the 1972 Protocol Amending the Single Convention on Narcotic Drugs 1961.

- The Government also acceded to the UN Convention on Psychotropic Substances 1971
- On 28th May 1993, Zambia ratified the 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic substances.
- Zambia has ratified the UN Convention against Transnational Organised Crime 2000 and the protocols thereto.
- The country also signed and ratified the UN Convention Against Corruption on 11<sup>th</sup> December 2003. Zambia has not yet ratified this convention.
- Zambia has also signed and ratified the UN Convention on the suppression of Terrorism.

#### **4.2 Regional Level**

- Zambia on 30<sup>th</sup> October 1998 ratified the SADC Protocol on Combating Illicit Drug Trafficking which was endorsed by Heads of State summit in Maseru.
- Zambia is party to the SADC Protocol against Corruption signed on 14<sup>th</sup> August 2001.
- Zambia signed the African Union Convention on Preventing and Combating Corruption signed on 3<sup>rd</sup> August 2005.
- Zambia is a member of the ESAAMLG
- Zambia is also a member of the African Heads of Narcotic Law Enforcement Agencies (HONLEA).

#### **4.3 National Level**

Zambia's legal framework for combating money laundering is enshrined in the Prohibition and Prevention of Money Laundering Act No.14 of 2001 (PPMLA) which was enacted in November 2001. The PPMLA provides for the creation of an Anti-Money Laundering Authority (AMLA). The AMLA is composed of the Attorney General, who is the Chairperson, the Inspector General of the Zambia Police Force, the Commissioner, Drug Enforcement Commission, the Director General of the Anti Corruption Commission, the Governor, Bank of Zambia, the Commissioner General, Zambia Revenue Authority and any two other persons who are all appointed by the Minister of Home Affairs.

The PPMLA also provides for an Anti-Money Laundering Investigations Unit chaired by the Drug Enforcement Commissioner. The PPMLA defines that the Commissioner is a person appointed as Commissioner under the Narcotic Drugs and Psychotropic Substances Act, Cap 96 of the Laws of Zambia.

Pursuant to the provisions of the PPMLA, the AMLA is required to provide general and specific policy directives to the Commissioner who has to give effect to them. Apart from its core function of collecting, evaluating, processing and investigating financial information received from the regulated institutions, the Unit has several other functions as mandated by the PPMLA. It has to assist in developing training programs for use by regulated institutions and Supervisory Authorities in the implementation of the PPMLA, and to supervise reporting requirements and other administrative obligations imposed on the regulated institutions and Supervisory Authorities.

Some of the weaknesses identified in the current anti-money laundering regime are as follows:

- The definition of money laundering should be widened to encompass acquiring of laundered property by any other means so that it is not only limited to the methods or means currently outlined in the definition
- The PPMLA should specifically provide for non-requirement of a prior conviction of an offender for a predicate offence as a prerequisite for the prosecution of any offence.
- Zambia must define the range of predicate offences to cover all serious offences in each of the designated category of offences. If a serious law is not defined in any of Zambia's domestic laws then the threshold approach based on the sentencing patterns in Zambia can be used to determine predicate offences to money laundering.
- Zambia does not have an administrative type of Financial Intelligence Unit (FIU) which meets the international standards. This has resulted in under reporting of suspicious transactions.
- The financial institutions falling under the supervisory purview of the PIA and SEC are however, not supervised for AML/CFT compliance. No sector specific directives have been issued by the respective supervisory authority to assist them to comply with their AML/CFT obligations
- The full range of the Designated Non Financial Businesses and Profession (DNFBPs) as defined under the FAFT recommendations is not covered under the PPMLA.

Arising from the legislative and institutional weaknesses noted in the anti-money laundering framework, the MER and the FSDP identified the following key issues which must be addressed in order to resolve the weaknesses:

- i. The PPMLA should be amended to comply with international standards in order to effectively combat money laundering and terrorist financing.
- ii. A financial intelligence unit that meets the Egmont Group standards should be established.

- iii. Each Supervisory Authority should set up a separate internal unit specifically to deal with/address all issues relating to the prevention of money laundering activities and for effective implementation of the various provisions of the PPMLA. The Supervisory Authorities should, in addition, issue appropriate directives for their various jurisdictions and ensure that the institutions they supervise comply with those directives and the provisions of the PPMLA and the regulations issued there under.;
- iv. The supervisory authorities should, in consultation with the regulated institutions, come up with a threshold limit and reporting format;
- v. The Unit should come up with appropriate training programmes incorporating techniques in recognition and prevention of money laundering activities, common documentation and methods of imparting training so that individual regulated institutions could provide training for their members of staff. Such training should be continuous;
- vi. FATF's 9 special recommendations on Terrorist Financing need to be incorporated in the Anti-Terrorism Act to ensure full compliance;
- vii. The Unit and the Supervisory Authorities (together with the institutions they regulate) should take appropriate steps in educating the general public/creating public awareness about prevention of money laundering activities;
- viii. Anti-money laundering legislation should be reviewed and updated in order to keep it current with developments in the financial system and with international standards; and
- ix. Zambia should attain full compliance with international standards for combating money laundering and the combating of the financing of terrorism.

The above recommendations are specific enough to provide guidance on key areas of the anti-money laundering and the combating of the financing of terrorism regime which require immediate attention while being broad enough to provide sufficient flexibility in the development of a comprehensive anti-money laundering and the combating of the financing of terrorism country strategy.

## **5.0 IMPLEMENTATION PLAN**

The implementation of the goals and objectives set out in this Country Strategy paper will be guided by the implementation matrix in Appendices I which sets out the specific goals, objectives and action items and resources required for implementation. These specific goals, objectives and action items obviously cannot be accomplished all at once. Rather; they are meant to set forth a framework for informed actions that, in some cases, are well underway. In other cases appropriate actions will be commenced in the medium and longer term.

The Country Strategy in the short term involves the passing of relevant legislation and implementation of appropriate procedures as set forth in Appendix I. The Country Strategy articulates both a short and a longer term course of action reflecting a commitment by the Republic of Zambia to a coordinated, effective, and long term fight against the evils of money laundering and terrorist financing.

## **6.0 CONCLUSION**

The fight against money laundering and terrorist financing in Zambia and around the world is important to protect our citizens and to assure the integrity of financial institutions and national security. The adoption of this Country Strategy marks a new stage in our efforts to address the weaknesses identified by the MER and FSDP. These efforts will enable law enforcement and regulatory officials to carry on the fight against money laundering and terrorist financing in Zambia and meet the challenges that lie ahead.

The Country Strategy will be modified and updated on a regular basis, thus allowing for an evaluation of progress made and identification of additional measures needed.

**Appendix1 - Implementation plan**

Task	Cost (US\$)	Budget required over 3 year period	Timetable (year and quarter)											
			2009				2010				2011			
			1	2	3	4	1	2	3	4	1	2	3	4
Review the pieces of legislation relating to money laundering and terrorist financing in order to bring them to international standards														
Amend the: - PPMLA - the Anti-Terrorism Act - Customs and Excise Act - Banking and Financial Services Act - Penal Code - Anti-Corruption Commission Act - Companies Act - Land Act - Societies Act - Securities Act - Insurance Act - Pension Schemes Regulation Act	Transport Sensitization Workshop Drafting Contingency  <b>TOTAL</b>	Accommodation  Year 1 30,000 Year 2 30,000 Year 3 30,000  90,000												
Enact laws relating to: - whistle blower protection - Witness protection - Civil forfeiture Act														
Issue AML/CFT Regulations														

**ANTI-MONEY LAUNDERING AND COMBATING OF FINANCING OF TERRORISM STRATEGY PAPER**

<b>Establishment of an FIU that meets the Egmont Group standards</b>														
- Acquire Offices Establish and equip a new FIU.			Motor Vehicles (6)	250,000	150,000									
			Computers (20)	60,000	recurrent									
			Server (V280) (2)	20,000										
			Internet dedicated line	20,000										
			Fire wall	4,000										
			Solar west OPS	10,000										
			Windows OPS	6,000										
			Photocopiers	5,000										
			Fax Machines	5,000										
			Shredder	3,000										
			Telephones	5,000										
			Security Access Control	10,000										
			Office furniture	40,000										
			Office Stationary	10,000										
			<b>TOTAL</b>	<b>428,000</b>										
Recruit 30 staff Train staff in relevant skills	Staff per month	96,000												
<b><u>TOTAL BUDGET</u></b>	Initial	614,000												
<b><u>TOTAL BUDGET</u></b>	Recurrent	346,000												

The specific amendments to the pieces of legislation listed above are contained in the detailed implementation matrix attached hereto.