



THE EFFECT OF GLOBALISATION ON MONEY LAUNDERING

BY

MBAYI MALAMA

**OBLIGATORY ESSAY
SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIRMENTS
FOR THE DEGREE OF BACHELOR OF LAWS [LLB]**

**UNIVERSITY OF ZAMBIA
DECEMBER 2004**

THE UNIVERSITY OF ZAMBIA

SCHOOL OF LAW

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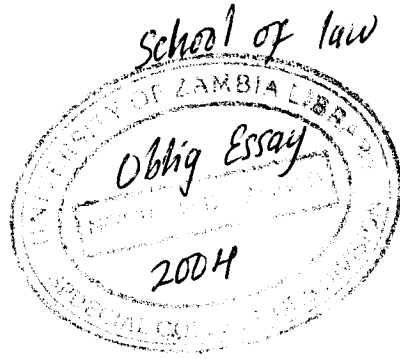
20TH DECEMBER 2024
DATE



MR S. WATAE
SUPERVISOR

DEDICATION

**I DEDICATE THIS ESSAY TO THE MEMORY OF MY LATE FATHER AND
MENTOR, MR RICHARD DAVID LOWE MALAMA AND MY MOTHER AND
CLOSEST CONFIDANTE MRS GETRUDE WANGA ANNIE MALAMA**



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ACKNOWLEDGEMENTS

In writing this essay I got a lot of help and support from many people. I express my gratitude to the following people:

MR & DR. NCHIMA NCHITO: My Guardians, for being the inspiration and wonderful 'parents' they are to me. God bless You & yours. I could never repay you for your love, guidance and kindness.

THE MALAMA CLAN: For being the wonderful people you all are in your own ways and for always looking out for me.

MR. SIDNEY WATAE: For the many days you spent trying to put me on the straight and narrow path. Whether or not you achieved it is another story altogether! Thank You for supervising my Obligatory Essay.

MAUREEN , WAICHA & IREEN: For being the wonderful women you are!

Finally, I would love to thank my best friend, Father and inspiration, The Lord who lives and reigns on High. The Father who has never failed me. The friend who sticks closer than a brother.

ABSTRACT

This Research paper tries to look at the link, between Globalization and the Money Laundering Scourge both in the world as a whole and Zambia in particular.

The first Chapter essentially defines what Money Laundering is and its various stages.

The Second Chapter looks at the impact of Globalization on Trans-national Crimes generally and Money Laundering in particular.

The Third Chapter looks at the incidence of Money Laundering in Zambia.

Chapter Four looks at the Possible effects that Money Laundering could have in Zambia.

The Last Chapter evaluates the Law in place both in Zambia and internationally regarding Money Laundering

CHAPTER ONE

WHAT IS MONEY LAUNDERING

Different authors and scholars have different definitions of what Money Laundering is, however, there is one essential element that is common to all; that Money laundering is a way of disguising ill-gotten money so that it appears to originate from a legitimate source. Thus, the Money Launderer is involved in some illegal activity, and to cover the trail of his 'dirty' money, he disguises it and transforms it into 'clean' money, which he can then use. Money laundering is a tool used by people involved in illegal activities, like drug traffickers, organised crime, tax-evasion, political bribery and corruption to make their ill-gotten gain look as though it were legitimate. Another dimension to the problem of money laundering came about with the events of September 11 2001 when the American people witnessed probably the worst terrorist attack in their history. The terrorist movement, the *al-queda* movement, which was behind the September 11 attacks, has been identified as getting its funding, mostly, from money laundering.ⁱ These attacks brought to light the link between money laundering and terrorism.

Whilst the term "Money laundering" was coined in the 20th Century, its principles have been present for far much longer. In his book "Lords of the Rim"ⁱⁱ Sterling Seagrave explains how, in China, merchants around 2000 years BC would hide their wealth from rulers who would simply take it from them and banish them. Apart from hiding it, the merchants would move it and invest it in businesses in remote provinces and in some cases, outside China.

STAGES IN MONEY LAUNDERING

The money laundering process, though complex usually follows a traceable pattern, which is made up of three distinct stages. These are the following:-

PLACEMENT STAGE This is the process whereby the proceeds of the crime are infused into the financial system in such a way as to avoid detection. Common techniques used at this stage include depositing large amounts of currency in several batches so as to avoid suspicion and detection. It is at this stage that Banks and other Financial Institutions run the risk of being unwittingly used as conduits. The process of placement can be carried out through several ways. These are some:

- I] Currency Exchange – in a number of transitional economies like ours, the liberalisation of foreign exchange markets provide room for currency movements and as such, laundering schemes can benefit from such policies.
- II] Asset Purchase – Money launderers might use their illegally obtained money to buy assets such as cars or houses. The aim is to change the form of the proceeds from bulky cash to some other form,

which is equally valuable but not as conspicuous.

- III] Currency Smuggling – This is where the illegally obtained money is physically moved out of the country.
- IV] Bank Complicity – This is where a bank is owned and controlled by individuals who have connections with criminal groups of organized crime.

LAYERING STAGE

During this stage, the illegally acquired money is distanced from their criminal source and the audit trail erased through a series of transactions. This is done usually done through Wire-Transfers to other Jurisdictions with Bank Secrecy Laws or lax record-keeping and reporting requirements.

The common methods used are;

- I] Buying, and later selling of Assets. If a house is bought from illegally obtained money, then sold off, the money obtained from the selling of such house would have been successfully layered.

INTERGRATION STAGE

As the term suggests, this is the phase where the successfully laundered money is infused into the economy through various legitimate transactions. The infusion of the laundered money mainly occurs through the banking system. The known methods used in this stage include:

- I] False Import/Export invoices – the use of false invoices by import/export companies has proven to be a very effective way of integrating illicit proceeds back into the economy. This involves the overvaluation of entry documents, to justify the funds later deposited into domestic banks.
- II] Foreign Bank Complicity – Money laundering using banks represents a higher order of sophistication and a

very difficult target for law enforcement. These foreign banks knowingly protect monies deposited into their accounts by organised criminal cartels.

III] Property Dealing – this would be in a case where, for example, a shell company is used to buy property and the proceeds considered legitimate.

IV] Front Companies & False loans – Through the use of front companies, incorporated in countries with corporate secrecy laws, criminal enterprise lends itself its own laundered proceeds in an apparently legitimate transaction

VEHICLES OF MONEY LAUNDERING

According to studies done in Canada³, banks and other deposit-taking institutions are the single most frequently used vehicles available to the launderer. Most importantly, deposit taking institutions constitute a crucial medium connecting the criminal enterprise with other laundering vehicles.

I] The popularity of deposit-taking institutions as a laundering vehicle derives from the fact that services offered are those most desired by launderers. Launderers will often use the deposit facility as the first step in the laundering process. Money couriers may be used in order to make a large number of relatively small deposits, use false identification, open accounts and conduct transactions under the auspices of a legitimate business.

Ii] Bureaux de Change can also serve as effective laundering vehicles. In addition to currency exchange, they can also serve as intermediary between the launderer and banking institutions. Because the American Dollar is commonly accepted as the international currency standard – even in the illicit drug trade – through the use of a bureau de change, the launderer can convert domestic currency to US dollars. Moreover the bureau can deposit large amounts of currency into banking institutions without causing suspicion.

III] The securities industry has also been said to be a vehicle which can be used by launderers. Securities can be bought and sold by a launderer through a brokerage firm or proceeds of crime may be invested in a private company which then goes public and issues shares.

Transacting in securities offers criminal enterprise the opportunity to convert illicit funds into a highly liquid asset while retaining their anonymity through such means as nominee accounts.

CHAPTER TWO

THE IMPACT OF GLOBALISATION ON TRANSNATIONAL CRIME GENERALLY

Criminal activity that transcends national borders is one consequence of the globalization of the world economy. The array of modern telecommunications, banking, travel and financial systems, which now span the globe, has given criminal elements the tools to move people, money and goods across national borders. As a result, today's international criminal organizations are adaptable, sophisticated, extremely opportunistic, and immersed in a full range of illegal and legal activities. While still involved at the lower level with drug trafficking, prostitution, loan-sharking, illegal gambling and extortion, they have expanded their activities to a corporate level where they are active in money laundering, migrant smuggling, bank fraud, gasoline tax fraud, the depletion of natural resources, environmental crime, corruption and large-scale insurance fraud⁴. In addition, their frequent use of money earned from their illegal ventures to fund legitimate ones allows them to launder "dirty" money and earn even more profits. They also apply many of their criminal tactics in these legal business operations, using violence or murder to get ahead. Trans-national criminal syndicates are not afraid to work globally in any country where legal or bureaucratic loopholes allow them to take advantage of the system. As with international corporations, these organizations are quite willing to work together, often bartering for the use of each other's unique talents to accomplish specific tasks, or to make longer-term arrangements when it suits their needs.

At their Summit in Birmingham, England in 1998, the G-8 leaders identified trans-national criminal activity as one of the three major challenges facing the world in the 21st century.

The leaders vowed to continue the fight against this worldwide problem which, they declared, threatens “to sap (economic) growth, undermine the rule of law and damage the lives of individuals in all countries of the world.” Additionally, the United Nations (UN) has made the issue of organized crime one of its priorities for the 21st century and is currently working to complete a Convention against Trans-national Organized Crime.

THE THREAT

As a threat to national security, trans-national criminal activity can impact on both weak states and those, which are stronger and more advanced. International criminal syndicates can affect the economic security of advanced industrialized states in that their basic activities of money laundering, corruption, extortion, fraud, tax evasion, price fixing, abusing immigration regulations and other criminal undertakings can seriously undermine the workings of the free market economy and have a negative impact on the integrity of government institutions such as immigration programs.⁵ In the case of less advanced nations with weak structures and/or tenuous legitimacy, the power wielded by trans-national criminal organizations can even rival that of the state.

In any nation where trans-national criminal groups are extremely powerful, even though the state may have nominal control over its sovereignty, the reality is that criminal syndicates are likely holding the reins. This has security implications not only for the country itself, but also, given the borderless nature of crime in today’s world, for the neighbours of any such criminalized state.

Given that trans-national crime groups do not consider international borders as impediments, they are not only a threat to the nations where they are based, but threaten any society where they conduct their activities. At a local / community level, the activities of these organizations pose threats in that they often give rise to a variety of social problems, such as drug abuse and violence, leading to increased health care, social program and law enforcement costs. However, since the majority of illegal activity takes place “underground”, and is therefore difficult for law enforcement to detect, actual numbers are unavailable.

Trans-national criminal activity, by its very nature, affects almost every area of the world, but some are more strongly affected by it than others. These areas include: Russia /Eastern Europe, Western Europe, Asia, North and South America, and Africa. Crime groups from or operating in these areas are highly organized, operate globally and have the resources to divide different parts of the world amongst themselves for their specific criminal activities.

RUSSIA/EASTERN EUROPE

Due to the multitude of meanings given to the words “organized crime” by the Russian government, the media and the public, it is difficult to determine exactly what qualifies as organized crime—making it equally difficult to accurately quantify the problem.⁶

WESTERN EUROPE

Although recent media hype regarding trans-national organized crime has largely ignored Western Europe, one of the world's oldest and most famous "brands" of international crime operates in the region: the Italian Mafia. While primarily involved in drug trafficking (largely heroin) and money laundering, Mafia groups are also active in the areas of extortion, weapons and diamond smuggling, and illegal disposal of radioactive waste

ASIA

The Chinese Triads, the Big Circle Boys, and the Japanese *Yakuza* are among the most prominent types of groups involved in Asian-based trans-national crime. Today's triads, most of which are based in Hong Kong, Macao and Taiwan, are not monolithic organizations with a strict hierarchical structure like other trans-national crime groups, such as the Italian Mafia.

Instead, they are collectives of individual groups which normally operate independently, yet will often cooperate with each other. The triads are involved in a variety of illegal activities, all of which are very lucrative. These include: drug trafficking; money laundering; corruption; computer software piracy; credit card forgery and fraud; counterfeit identification and currency operations; and migrant smuggling.

Another Chinese trans-national crime syndicate of interest is the Big Circle Boys (*Dai Huen Jai* or BCB). This is less a single, centrally led organization than a loosely affiliated group of gangs operating independently and cooperating only when needed. Several BCB cells often operate in the same large city. While the BCB organization is not a triad, its operations are nearly as sophisticated as those of the triads. BCB members are active in money laundering, drug trafficking, migrant smuggling and large-scale credit card forgery and fraud.

Vietnamese gangs are also a concern. These gangs, known for their extreme violence, engage in illegal activities ranging from property crime, drug trafficking, and cigarette smuggling to high technology theft, financial fraud and other white collar crime. Vietnamese gangs have an established presence in Asia, Eastern Europe, Australia and North America.

The Japanese *Yakuza* (also known as the *Boryokudan*) groups are similar to the triads in that they have a long criminal history dating back at least to the 18th century. Unlike most trans-national criminal organizations, however, *Yakuza* syndicates are relatively open criminal societies, some of whose members have been known to have their own business cards, complete with *Yakuza* emblem.⁷ Some organizations have even published newsletters and magazines.

Estimates of *Yakuza* membership in Japan run as high as 80,000. Their worldwide activities include the drugs and arms trades, money-laundering, the penetration of legal business enterprises and inflating land prices. The *Yamaguchi-gumi*, based in Kobe, is the largest *Yakuza* organization with an estimated 26,000 members in more than 944 affiliated gangs. Its estimated revenue in 1994 was in the range of US \$25 billion to US \$38 billion.

Given the political / economic instability and the rampant corruption found in Nigeria, it is no surprise that trans-national crime has found a home there. For instance, Nigerian trans-national crime groups are known in many areas of the world for their advance fee frauds, which are also known as “419 scams”—named for the article of the Nigerian criminal code that covers such operations. This operation involves duping an unsuspecting individual in another country into sending an amount of money by promising that a much larger sum will come their way after the completion of administrative necessities. Disguising their fraud as a business endeavour, Nigerian organized crime groups have been known to effectively target elderly people in the West who often have no recourse if they give up their life savings. Nigeria also acts as a base of operations for large trafficking groups which smuggle Southeast and Southwest Asian heroin into the United States and Europe and money laundering.

In South Africa, international organized criminal activity takes two forms—groups which are native to the country and groups based in other areas of the world but active in South Africa. The ranks of some South African based groups include former members of the apartheid security forces who are involved in weapons smuggling, drug trafficking and prostitution rings.⁸ The Russian *mafiya*, Chinese triads and Nigerian groups are also active in South Africa, where in addition to being involved in the more common transnational crimes, they also engage in diamond smuggling and trafficking / smuggling of endangered species (or products made from them).

Latin America / Caribbean

When it comes to transnational crime, Colombia and cocaine trafficking are inextricably linked. The bulk of the world's coca leaf production occurs in Colombia, Bolivia and Peru. However, according to the *World Drug Report*, published in 1998 by the UN, it is Colombia that manufactures some 70-80 per cent of the world's refined cocaine. In the past, two main cartels—Cali and Medellin—dominated the cocaine trafficking business in Colombia, but after law enforcement crackdowns broke their hold in the mid-1990s, a decentralization of the industry occurred. For instance, the *World Drug Report* indicates that Mexican cartels have since become more prominent.

The tri-border region of South America (Argentina, Brazil and Paraguay) has been described as “a magnet for organized crime”, a “danger to the entire continent” and “a free zone for significant criminal activity”. Although it does not appear that the region is home to any major ethnic-based groups of its own, Asian-based organized criminal groups, such as the Big Circle Boys, are very active there. Crime groups from Colombia and Lebanon also operate in the area. Money laundering is another prominent activity. For example, Brazilian police have investigated bankers who reportedly laundered at least US \$7 billion in the region.

International banking centres (IBCs) are renowned as tax-havens and often operate under strict bank secrecy rules, confidentiality laws and lax reporting regulations which often inhibit both domestic and foreign law enforcement agencies in properly investigating trans-national financial crimes.⁹ Many of these IBCs are located in the Caribbean and the South Pacific Islands and are prime targets for trans-national criminal groups to launder money. According to the International Monetary Fund (IMF), funds in worldwide offshore accounts grew from US \$3.5 trillion in 1992 to between US \$8 trillion and US \$10 trillion today.

North America (La Cosa Nostra and outlaw motorcycle gangs)

North America either acts as a base of operations or a sphere of activity for all of the transnational criminal organizations mentioned above. In addition to these groups, there are two other types of criminal organizations worthy of mention: *La Cosa Nostra* and outlaw motorcycle gangs.

Generally speaking, *La Cosa Nostra* is the American offshoot of Italian-based organized crime. This group of Italian Mafia families has its beginnings in the United States' Prohibition era when liquor trafficking made fortunes for those willing to break the law. There are 25 *La Cosa Nostra* families, with five of the most influential headquartering their operations in New York City. *La Cosa Nostra* organizations are involved in criminal activity in most major cities in the United States. Their activities include money laundering, drug trafficking, illegal gambling, arms trafficking, prostitution, extortion, skimming public and private works contracts, usury and infiltration of legitimate business activities (such as construction, food retailing and influencing unions). *La Cosa Nostra* groups often work with their Italian-based brethren who conduct operations in the United States, although they occasionally compete with them as well.

The Hells Angels Motorcycle Club, with its headquarters in Oakland, California, is the world's largest outlaw motorcycle gang. It has 180 chapters located around the world, including the United States, Canada, Great Britain, numerous European countries, Australia, New Zealand, South Africa and Brazil. According to the RCMP, the Angels are involved in a variety of criminal enterprises, including drug trafficking, prostitution and money laundering. With 18 Canadian chapters and some 200 members across Canada, they exercise enormous criminal clout.

EMERGING TRENDS IN TRANSNATIONAL CRIME¹⁰

Cyber crime has already emerged as a proven weapon in the arsenal of trans-national criminal organizations and it is expected to play a bigger role in years to come. The growth and interconnection of global computerized financial networks has allowed these organizations to launder the profits of their illegal ventures quickly and easily through transactions that are instantaneous and difficult to trace. It is also believed that trans-national criminal organizations have, or soon will have, the capability to use computers for a multitude of other illegal activities, for instance, "hacking" or "cracking" into the computer systems of corporations, accessing valuable information and then extorting the corporation by threatening to manipulate, deny access to or destroy the data.

Legitimization is another trend among trans-national criminals. Some are attempting to distance themselves from the illegal aspects of their operations by involving themselves in legitimate business ventures—which are funded by the almost bottomless profits acquired through their criminal activities. Others seek civic legitimacy by making donations to community hospitals, charities, universities and political parties.

Cooperation among trans-national criminal organizations, already a major factor in the new world order of crime, is expected to continue and expand. Partnerships, bartering arrangements and alliances, either short or long term, allow these syndicates to better evade law enforcement agencies, to share existing infrastructure and to improve risk management.

CONCLUSIONS

Transnational criminal organizations will continue to expand their influence - moving away from their centres of origins, spreading around the globe and insinuating themselves into the world's economy.

Weaker, developing countries are more susceptible to the threats posed by trans-national crime groups. Stronger countries are also vulnerable and as such, transnational criminal organizations will continue to expand.

Due to the pervasive nature of transnational organized crime, law enforcement efforts alone are not sufficient. Global strategies are needed to stem its growth. There is currently, a United Nations Transnational Organised Crime Convention and its three protocols against Migrant Smuggling, Trafficking in Persons and Firearms.¹¹

Transnational crime poses a serious threat to any country's economic security. Criminal activities such as large-scale money laundering and fraud can make it more difficult for legitimate businesses to succeed. Furthermore, these activities can have a destabilizing effect on investment, tax revenues, international reputation, and consumer confidence. Companies operating and investing abroad may unwittingly become involved in businesses with links to organized crime and may run the risk of losing their investments. This can negatively impact on both the domestic economy and on international trade.

The illegal actions of trans-national crime organizations threaten law and order, directly affecting people's sense of security, trust and community. The growth of transnational crime has forced governments to spend more of budgets on enforcement. Adding to the increased enforcement expenditures and the burden on the criminal justice system is the fact these activities often result in social costs with long-term effects, e.g. drug dependency and a rise in violent crime.

Additionally, attempts at corrupting public officials, and the exploitation of government programs such as the immigration system, jeopardize the integrity of these programs and institutions.

One of the most potent examples of how trans-national criminal activity has the capacity to affect a country's economic security came to light in May 1998, in Canada, when the FBI seized financial documents in a raid at the head office of YBM Magnex Inc. in Newton, Pennsylvania. YBM was suspected of having ties to Russian organized crime and of money laundering. The Canadian arm of the company, YBM Magnex International Inc., was very popular on the Toronto Stock Exchange's 300 composite index. It had amassed a market capitalization of almost \$1-billion until trading was halted following the American seizures. This incident shows there is a legitimate concern that stock markets have the potential to be used in order to develop holding companies or shell companies to aid organized criminal elements in laundering their ill-gotten gains.

Apart from Economic Crime, there is also Environmental Crime. There are two main areas of concern: illicit trade in ozone depleting substances (ODS) and illicit hazardous waste treatment and disposal.

Illicit Drug Trade – Estimates of the size of the global illicit drug market range between US \$350 billion and US \$400 billion.

Illegal migration – Increasingly, human smuggling involves organized trans-national criminal networks whose sophisticated methods are making detection and apprehension more and more difficult. The UN estimates that, of the 125 million displaced migrants throughout the world, 15 million were transported by illegal migrant-smuggling syndicates.¹² In addition to economic concerns, illegal migration has serious implications for immigration and visa processes. The exploitation of a country's immigration system undermines its ability to operate and undermines the confidence the citizens have in government programs.

Money Laundering – The IMF estimates the present scale of global money laundering transactions to be 2 to 5 percent of global GDP and that the impact of money laundering is large enough that it must be taken into account by macroeconomic policy makers.

Money laundering is a key activity of organized crime groups. Without the ability to launder their illegally earned money, these groups would not likely survive.

THE IMPACT OF GLOBALISATION ON MONEY LAUNDERING IN PARTICULAR

Having considered the bigger picture of the impact of Globalisation on Trans-national crime, this paper now seeks to analyze the particular impact of globalisation on the crime of Money Laundering.

Money Laundering being a White Collar crime rests heavily on technology. The more advanced the Technology, the better for the launderer. A launderer would find it difficult to operate in a place, which is 'backward' in terms of technology. In their book, entitled "Financial Sector Development & Money Laundering, Nathan C. De Assis and Stuart M. Yikona¹³ say "from a global perspective, technological advancements such as electronic funds transfers provide an added advantage for Money Launderers to transfer money from one jurisdiction to another. The international financial systems have become interconnected through computerised networks, making it a global market." This statement is, indeed true in every sense of the word. Where as in the past, it would be more difficult for a national of one country to hold bank accounts, assets and other property in another country; globalisation has taken all these barriers and broken them down. The world has increasingly become a global village and so, where a Launderer had to be careful how to disguise his money because he could only do so in his own country, globalisation has now given him the choice of hiding the money trail in a number of countries, all at his disposal. The launderer is now spoilt for choice when it comes to which countries he will use to place, layer and later integrate his ill-gotten money.

The United Nations says the laundering of illegally obtained money is being made relatively easy these days by the growing globalisation of the market place. The United Nations Drug Control Program [UNDCP] points out that trade liberalisation and free trade zones are now providing additional venues for money laundering and drug cartels. According to UNDCP, organised crime syndicates are taking advantage of globalisation – open borders, offshore banking centres, privatisation and electronic financial transfers – to launder millions of dollars in criminal profits everyday! International wire transfers are said to number around 70,000 a day, at the end of which some two trillion dollars has criss-crossed the globe.¹⁴

In a paper written on the Swiss Banking Secrecy, it was observed that the dominant characteristic of the last few years has been the acceleration of globalisation of the international financial markets, stimulated by technological progress and the liberalisation in movements of capital and financial services at international level.

Globalisation was said to have resulted in accelerated internationalisation of problems requiring countries involved to increase their efforts to work together in a spirit of co-operation.¹⁵ What globalisation has done is to lead to a greater mobility of capital, but also increases the opportunities for money laundering and tax fraud or evasion. Money laundering has always been a trans-national crime, but globalisation has made it relatively easy.

In a paper entitled “Globalisation: Benefits and Challenges for Governments” the OECD lists some of the globalisation challenges this way:

“...but globalisation has also raised a lot of challenges for governments.....globalisation has widened opportunities for tax evasion and avoidance and money laundering...” In its paper, the OECD brings out the point that it is unhappy because it feels that the offshore financial sector is a danger to the entire world economy because the sector could easily be taken over by criminal elements particularly the drug mafias, to launder their ill-gotten gains.

Joseph E. Stiglitz in his paper “Globalism’s Discontent”¹⁶ says September 11 brought a dark side of globalisation. He says it provided a global arena for terrorists. He says that for a long time, Washington did not subscribe to transparency and openness when it came to off-shore accounts. Stiglitz says off-shore banking which has been much advanced by the world turning into a global village has adverse effects as the USA witnessed. He says the secrecy of off-shore banks serves a variety of nefarious purposes including Tax evasions, tax avoidance and money laundering. He further goes on to say the most adverse effects of globalisation have arisen from the globalisation of the financial and capital markets – which has posed risks to developing markets. Stiglitz notes that the liberalisation has left the developing countries prey to ‘hot money’ pouring into the country.

According to the IMF, the scale of Money Laundering world-wide could be somewhere between 2 and 5% of the world GDP, statistics which translates into a range of US\$590 billion to US\$1.5 trillion. In a paper titled “Money Laundering: staying ahead of the latest trends”¹⁷ Moulette says often a laundering deal will involve more than one offshore centre. The inability to obtain information about the real owners of the foreign entities with corporate status is one of the chief obstacles to detection, investigation and prosecution of persons suspected of money laundering. The paper goes further to note that more and more, there is an increase both in technological advancement and with it, the means of money laundering.

Moulette says with the ever-widening range of financial instruments on offer, other laundering possibilities are being opened up. He says the derivatives and securities markets seem particularly susceptible to recycling of organised crime proceeds because the audit trail is so easily blurred. A broker can launder a sum of money through a perfectly legal transaction, with no need to even make a false entry. The only thing required of the broker is to assign genuine trading losses to the account in which the illegal funds will be deposited. It is absolutely legal for a dealer in the financial futures market to hold two contracts for subsequent offset. By assigning trading gains and losses to two different accounts, one ‘regular’ and the other to receive the laundered funds, the dealer can put through a laundering operation on the loss account without breaking the law.

Insurance, notably life, property and long-term capitalisation bonds is another possibility. Launderers generally pay for the insurance with cash and then request early redemption of the policy or make a claim against their property insurance, thus obtaining payment in bank money from the insurance company.

However, electronic fund transfers continue to be the preferred method for the layering of criminal proceeds once they enter the legitimate financial system.

Frequently, these proceeds are smuggled out of one country, deposited in another, and then wired back to the country of origin. The new payment technologies – smart cards, online banking and electronic cash – can theoretically increase the opportunities for laundering. If an online financial institution is located in an area known for high levels of banking secrecy and requires little or no proof of identity for opening an account, the money launderer can then move funds from the convenience of his computer terminal. Certain smart-cards and e-cash systems likewise present a risk in that no upper limit is set on transactions. While most smart card systems do not permit direct card-to-card transactions, others are being developed that may have this capacity of bypassing a financial intermediary. In the absence of consistent standards and suitable monitoring by the supervisory authorities, these new payment technologies could well be vulnerable to money laundering operations.

The introduction of the Euro in eleven countries of the European Union is another source of risk.

changeover to the euro may have swamped the personnel of financial institutions and made them more likely to miss or disregard indications of laundering. Some writers have suggested that the adoption of the Euro will create ideal conditions for money laundering in that it may be very easy for criminals to counterfeit it. It has been recognised that the more convincing forgeries are often produced in the UK and, indeed, in mid 2000, the UK police found a major counterfeiting operation producing high quality euro notes in readiness for the introduction of the physical currency.

Neville Grant¹⁸ says Money Laundering has taken advantage of the continual globalisation of the securities market to obstruct any subsequent paper trail.

It is undeniable that globalisation has taken the world by storm and many good things have come with it, but it has also brought a lot of adverse effects. The rise also in the advancement in technology has had its impact on the rising cases of money laundering the world over. Whereas the money launderer 25 years ago had to shift around full suitcases of cash, the money launderer carrying out his criminal activities today does not even have to physically touch any money at all. What better way to disguise his ill-gotten cash than e-banking or phone-banking etc

CHAPTER THREE

MONEY LAUNDERING IN ZAMBIA

Zambia, like any country in the world, is affected by money laundering. In the recent past, the country has witnessed cases, both high profile and otherwise, in the courts and reported in the media, which involved money laundering.

Money laundering in Zambia appeared prominently in the media vocabulary during the 1985 Chaila Tribunal. The tribunal reviewed the detention of 25 citizens who were involved in drug trafficking. Mandrax drugs used to be imported from Germany and India. The drug traffickers would then use couriers to take it to Botswana and South Africa. The money gained in Rand would then be sent to Britain and banked in BCCI Bank and changed in Sterling. Relatives of the drug traffickers would then send back the money to Zambia as gifts or buy cars from South Africa or Botswana or any merchandise, which was in short supply in Zambia. Sometimes, the Rand smuggled into Zambia was sold on the black market at inflated exchange rates. Because of its nature, it is very difficult to put statistics to the crime of money laundering.

In Zambia, the extent of money laundering is not yet known but going by the Chaila Tribunal Report and other cases reported in the media, it does exist and what is lacking is intensive research to get to the bottom of the problem. In this country, it is believed that the problem of money laundering worsened after 1991 following the reintroduction of liberal economic policies, with no Government control of the financial system.

Consequent to these open economic policies, there was a proliferation of banks and other financial institutions, which were used to a large extent in the externalisation of the country's scarce foreign reserves. In fact, it is believed that because Zambia liberalised her economy and scrapped the Foreign Exchange Control Regulations in 1992, that created an enabling environment for criminals both local and foreign to use the country as a centre for criminal activities and laundering their illegally earned wealth. During 2002, for example, the Anti Money Laundering Investigation Unit managed to arrest nine persons and confiscated property worth K209 million from suspected money launderers. Moreover, the Auditor General's report of 2000¹⁹, reveals the seizure of nine accounts totalling K5,457,874,814 from commercial banks due to account holders failure to disclose sources of such huge amounts clearly pointing to money laundering. However, in spite of clear evidence of the illegal activities by the account holders, the state surrendered all the funds seized plus interest via a court order, instigated by the offenders. "DEC Blocks K11bn Payment to dubious food suppliers" was the headlines in the Times of Zambia of November 30th 2004. The report told of how the Drug Enforcement Commission had blocked payment of K11 billion to dubious food suppliers although K4 billion had already been paid out in the illegal foodstuff transaction. DEC spokesperson, Betty Mumba said the DEC's Anti-Money Laundering Unit discovered the scam and blocked the payment to fake food suppliers. In the same report, Ms. Mumba also said the commission arrested 10 persons for Money Laundering, drug trafficking, attempting to

obtain money by false pretences amounting to more than K500 million. She said a Mr Francis Mulenshi 36 of plot number 477 Kabwata Site and Service and Dora Mukabe of the same address were arrested and jointly charged for attempting to obtain K265 million from which K45 million had been obtained by false pretences. Ms. Mumba said a Mr John Koko of house number 7 Matero was also arrested for obtaining K55 million as part payment from the total of K143 Million he was claiming from Zambia Army for fake food supplies. She said the Commission had also arrested Morgan Kalunga Sikazwe 37 of house number 9 Helen Kaunda and Bennon Ngosa 28 of Chilanga Estates and jointly charged them with Kalo Mwambazi for fraud and money laundering involving K55 million. For Drug offences, Ms. Mumba said the DEC arrested Amos Zimba 23, unemployed of house number 44 Twin Palm Road, Kabulonga and Chisulo Phiri 30, who trafficked 1n 64 balls of cannabis known as “Malawian Gold” weighing 3.707 Kilogram’s concealed in banana leaves. She went further and said the DEC has also arrested Luke Zulu 38 of Kapondela Village in 184 balls and eight packets of loose cannabis. Money Laundering, by its very nature, is the obtaining of money through illegal means and later ‘cleaning’ it and give it a seemingly legal source. These cases therefore, though most are fraud cases, have a role to play in the money laundering problem in the country because monies obtained in such illegal ways, have to be ‘cleaned’ and channelled back into the legal financial system of the country and this continues and enhances the money laundering cycle. Drug Enforcement Commission Commissioner

Mr. Mukutulu Sinyani said that Money Laundering was a problem in Zambia and had the ability to de-stabilise the national currency. He said vices such as drug trafficking and money laundering were affecting economic development.

One of the most publicised Money Laundering case in the recent past perhaps, was that of the Defunct United Bank of Zambia. The four managers of the defunct bank Ashley Benedict D'Souza, former operations manager, Rajesh Kaushik, former Ndola branch Manager, Manoj Gupta, operations manager and Pandalika Shenoy, managing director were charged with the crime of Money Laundering and convicted by the Lusaka High Court in 2003. Lotti S. Mpundu, Head of the Drug Enforcement Commission [DEC] Anti-Money Laundering Investigations Unit, said setting up a commercial bank is probably the most common way of laundering dirty money especially in an economy where enforcement laws are lax. Which is probably why the 'washing machine' in the form of the United Bank of Zambia was set up in the first place. Between January 1 1999 and February 2001, D'Souza, Kaushik, Gupta and Shenoy illegally externalised over US\$189 Million using fictitious accounts to a New York based company called pearstrand. They opened two fictitious bank accounts using forged documents to facilitate the externalisation of funds without attracting undue attention. One of them, account No.5100167001 was in the name of Leslie Mulenga. The other account, in the name of Justine Sakata, was numbered 5100122008. the paper trail lead the DEC to accounts in the Caymen Islands and to New Jersey where some of the laundered money had been stashed.

The commonest crimes associated with Money laundering the world over are drug trafficking and corruption. Needless to say, Zambia has had her fair share of both Drug Trafficking cases and in the recent past, the news has been full of cases, most of them still going on in the courts of law, of corruption. It is therefore safe to assume that there is quite an alarming amount of Money laundering going on in our country. If there is as much corruption as we are seeing in the news and evidenced by the number of high-profile cases in the courts of law, then to disguise the ill-gotten gains, money laundering must have come into play.

CHAPTER FOUR

WHAT ARE THE POSSIBLE EFFECTS OF MONEY LAUNDERING IN ZAMBIA

Perhaps one of the most noticeable effects of money laundering is an increase in inflation as well as a thriving black economy.²⁰ Government would therefore be unable to plan effectively, monitor the success, or otherwise, of its fiscal and monetary policies.

Another negative effect is a possible increase in reputation risk. Zambia is already listed as one of the most corrupt countries in the world.²¹ The Financial Task Force on Money Laundering [FATF] assess the co-cooperativeness of countries in combating money laundering. Some un-cooperative countries have already been blacklisted. We would be doing ourselves no favours if we allowed money laundering to grow in Zambia as an inclusion on the blacklist would probably result in a significant reduction in inflows of investment capital aid from the developed world. This would have a dampening effect on the Government's aim to achieve real GDP growth as well as the other mirco-economic targets such as a reduction in the inflation rates, to limit the budget deficit and to increase the gross international reserves.²² Everyone, particularly in the financial services sector, therefore needs to be vigilant against money laundering.

Apart from the above-mentioned effects, there are also other possible effects of money laundering;

1. **UNDERMINES THE LEGITIMATE PRIVATE SECTOR**

Money Launderers use front companies, to mingle the proceeds of illicit activity with legitimate funds and in the process, hide the ill -gotten gains. Such companies, it has been found, include Bureaux de Change, Restaurants etc These companies have access to substantial illicit funds, therefore allowing them to subsidize the front company and offer it's products and services at levels below market rates. At times, they quote prices, which are below production cost.

This explains why front companies have competitive advantage over companies that source their funding from the financial markets. This makes it difficult, if not impossible, for legitimate business to compete against such companies. This situation leads to the crowding out of the private sector by criminal organisations. Obviously, the management principles of these criminal enterprises are not consistent with traditional free market principles of legitimate businesses, which result in further negative macroeconomic effects. Because of the nature of the crime of money laundering and the exceeding expertise that those involved use, there is no tangible evidence in Zambia at the moment, to point directly to this fact but the case of the Defunct United Bank of Zambia may be put forward as one such case that evidenced this trend.

2. **LOSS OF CONTROL OF ECONOMIC POLICY**

As already alluded to above, the magnitude of money laundering is between 2 – 5% of the world gross domestic product. In countries like Zambia, these proceeds are able to dwarf government budgets, resulting in loss of control over economic policy by governments.

It is possible for money laundering to affect currencies and interest rates as launderers reinvest their funds where the rates are not necessarily high but where their schemes are less likely to be detected. The misallocation of funds, which comes about due to artificial distortions of asset and commodity prices, can increase the threat of monetary instability. Money laundering may result in inexplicable changes in money demand and increased volatility of international capital flows, interest and exchange rates. The unpredictable nature of money laundering may make sound economic policy difficult to achieve.²³

3. **ECONOMIC DISTORTION & INSTABILITY**

Because money launderers are not interested in profit generation from their investment but rather in protecting their proceeds, they will invest their funds in activities that are not necessarily economically beneficial to the country where the funds are located. Furthermore, to the extent that money laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer. In some countries, entire industries, such as hotels, have been financed not because of actual demand, but because of the short-term interests of money launderers.

When these industries no longer suit the money launderer's scheme of things, they abandon them, causing a collapse of these sectors and immense damage to economies. Perhaps this can be said of the Zambian Banking Sector where the early 1990's saw a plethora of banks lining Lusaka and just as quickly as they mushroomed, they went under. The same happened to bureaux de change and restaurants. It must be pointed out that there is no hard evidence to this effect, but that conclusions can be drawn from the way the Banking Sector and the Restaurant and Bureau De Change businesses have been mushrooming and going under in the country.

4. LOSS OF REVENUE

Money laundering makes governments' tax collection efforts difficult and diminishes tax revenue. The loss of revenue means government setting higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.

5. RISKS TO PRIVITASATION EFFECTS

Money laundering threatens the efforts of many states to introduce reforms into their economies through privatisation. Criminal organisations have the financial power to outbid legitimate purchasers for formerly state owned enterprises. Furthermore, while privatisation initiatives are often economically beneficial, they can also serve as a vehicle to launder funds. Criminals have been known to purchase privatised banks, resorts, etc to hide their illicit proceeds and further their criminal activities.

This could be true of Zambia where state enterprise has seen a lot of privatisation in the past few years. Developing countries like Zambia are further exposed to the threat of money laundering because they crave for investment in their countries and are more vulnerable to accepting suspicious transactions.

6. **EFFECTS OF MONEY LAUNDERING ON BANKS**

Banks are normally the targets of money laundering activity because of their capability to handle huge cashless transactions, and to transmit funds efficiently, and also because of their natural trustworthiness in keeping confidential their customers' financial affairs. Money laundering has several implications on the safety and soundness of bank.

CHAPTER FIVE

WHAT IS THE LAW IN PLACE BOTH IN ZAMBIA AND ON THE INTERNATIONAL SCENE

The Government of Zambia responded to the increase in drug trafficking and money laundering by passing the Prohibition and Prevention of Money laundering Act in 2001.

The purpose of this Act is self explanatory from its title. The Act provides for the prevention and prohibition of money laundering activities in Zambia. It also provides for the disclosure of information by supervisory authorities and of regulated institutions if suspected of money laundering activities. The Act also provides for the forfeiture of property belonging to persons connected to money laundering offences as well as for the prosecution of persons to or charged with money laundering offences.

The establishment of the Anti-Money laundering Unit whose mandate is to collect and investigate financial transactions suspected to be part of money laundering has strengthened this law. The Unit is also mandated to liase with other law enforcement agencies in conducting investigations and prosecution of money laundering offences and to supervise the reporting requirements and other administrative obligations imposed on financial institutions.

OVERVIEW OF THE ACT

The Act was assented to on 8th November, 2001. In the Act, *Money Laundering* means:

- engaging, directly or indirectly, in a business transaction that involves property acquired with proceeds of crime;

- receiving , possessing, concealing, disguising, disposing of, or bringing into Zambia, any property derived or realised directly or indirectly from illegal activity; or
- the retention or acquisition of property knowing that the property is derived or realised, directly or indirectly from illegal activity.

‘proceeds of crime’ and ‘property’ are given very wide definitions and apply to all Zambian citizens in transactions occurring both within and outside Zambia. This was a positive move by the legislature because a Zambian launderer cannot carry on an illegal transaction outside the country with the hope of escaping the law.

Section 9(1) states “Any person who attempts, aids, abets, counsels or procures the commission of the offence of money laundering shall be guilty of an offence and shall be liable, on conviction to a fine not exceeding 130 penalty units or imprisonment for a term not exceeding 5 years or both.

PART V – PREVENTION OF MONEY LAUNDERING

Section 12(4) A supervisory Authority shall issue such directives as may be approved by the Money Laundering Unit, which may be necessary for the regulated institution to prevent and detect money laundering.

Section 13(1) Regulated institutions shall:

- a. Keep an identification record and business transaction record for 10 years after the termination of the business transaction so recorded.

- b. Employees of regulated institutions should report to the Money Laundering Unit if they have reasonable grounds to believe that a money laundering offence is being, has been or is about to be committed.

The regulatory institutions under the Act are supposed to:

- Identify all clients
- Set up record keeping procedures for evidence of identity and transactions
- Set up internal reporting procedures for suspicious customers, including the appointment of Money Laundering Reporting Officer
- Train Relevant employees in their legal obligations
- Train those employees in the procedures for recognizing and reporting suspicions of money laundering

SHORT-COMMINGS OF THE ACT

Part IV – Section 11 reads “Any person who knows or suspects that an investigation into Money Laundering has been, is being or is about to be⁴ conducted, without lawful authority, divulges that fact or information to another person, shall be guilty of an offence...”

This section can be said to contradict the relationship that exists between a Lawyer and the client. The lawyer’s loyalty to the client comes first and is confidential. Should the lawyer not counsel her client when involved in money laundering offences?

Among Lawyers, tipping off a client is part of the trade and Lawyers find this section tricky. Lawyers have a duty to both to their clients and to the law when they are in court. Balancing the act between tipping off the client and being faithful to the law will therefore need to be resolved. Among Lawyers, tipping off a client is termed as 'offering professional advice', which is one of the obligations of the learned Gentlemen and Ladies. These inconsistencies in the Act will have to be clarified.

Section 13(1) this is in contradiction with the Law on Banking which currently only obliges banks to keep records for up to 5 or 6 years.

- the Anti Money Laundering Act obliges employees of regulated institutions to report to the Money Laundering Unit if they have reasonable grounds to believe that a money laundering offence is being done, or has been done or is about to be committed. This section encourages employees to act on mere suspicion. Suspicion brings in a degree of uncertainty. If these employees work on mere suspicion, the clients of such bank, on finding out what is happening, can leave the bank and thus, one wonders how many clients [some innocent maybe] the bank could lose. Apart from the loss of clients, the Bank would risk being the subject of lawsuits for breach of confidentiality. The application of this part of the Act may, therefore, bring about more injustice than justice.

This aspect of the law therefore needs to be harmonised and a degree of certainty ought to be brought in during the training of personnel.

The Act further states that regulatory institutions are supposed to identify clients, set up record keeping procedures for evidence of identity and transactions etc, compliance to this section of the Act would require a lot of financial and professional costs eg. Storage space is needed and substantial revision of computer programmes. In addition, new manuals will be required, as well as staff training. All these mean increased costs to regulatory institutions.

The Anti Money Laundering Unit could initially come up with incentives for regulatory institutions to implement the Act such as Tax exemptions for training costs, new computer programmes, establishing and expanding storage space, as long as these are related to compliance with the provisions of the Act.

Apart from the Anti Money Laundering Act, there are other Acts in Zambia which, more or less deal with the vice. One of such Acts is the Narcotic Drugs & Psychotropic Substance Act, which has a provision dealing with the possession of property obtained through trafficking and money laundering. (viz. S.21 & 22). In both cases, the maximum punishment upon conviction is 10 years imprisonment.

GLOBAL RESPONSES TO MONEY LAUNDERING

The increasing integration of financial systems resulting from improved technology and removal of barriers to the free movement of capital, means that money launderers can now make use of the financial system to hide the proceeds of the illegal activities easily. Launderers are now able to quickly move illicit money between national jurisdictions, therefore complicating the task of tracing and confiscating these assets.

Differences in money laundering legislation and in the implementation of international standards such as, know your customer regulations, customer identification and secrecy laws lead to regulatory arbitrage and work to the advantage of money launderers because they can move the proceeds of their activities to less-regulated territories where the law is lax.

Because of this, it has been recognised by many governments that close international co-operation is needed to counter money laundering. The most important international responses to money laundering include the following:

I] FINANCIAL ACTION TASK FORCE [FATF]

The FATF is a 26 member intergovernmental, policymaking body that was established in 1989 to guide the implementation of Anti Money Laundering measures in the aftermath of the 1988 UN Drugs Convention. It's membership includes major financial centres of Europe, North America and Asia. The FATF has come up with 40 Recommendations which member countries are expected to adopt. These are designed for universal application and cover the criminal justice system and law enforcement, the financial system and it's regulation and international co-operation. Recommendations 10-29 deal specifically with the role of the financial system in combating Money Laundering and addresses issues of customer identification, record keeping rules and increased diligence by financial institutions.

II] BASLE COMMITTEE OF BANKING SUPERVISION

The main thrust of regulatory response to money laundering has been to stop dirty money from entering the banking system and to make sure that it is traceable when it does. The Basle Committee, a grouping of the worlds leading Bank supervisors has so far come up with three guidelines for the banks in combating money laundering.

III] WOLFSBERG PRINCIPLES

The Wolfsberg principles came into force in 2000 and are an industry response to the threat of money laundering. They are an agreement among eleven major international private banks to guide the conduct of international private banking. Essentially, the principles seek to control money laundering by cutting across the multiplicity of jurisdictional issues and addressing the serious reputation damage they were suffering in the media because of money laundering.

IV] EAST & SOUTHERN AFRICAN ANTI –MONEY LAUNDERING GROUP

The purpose of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is to combat money laundering by implementing the FATF Forty Recommendations. This effort includes co-ordinating with other international organisations concerned with combating money laundering, studying emerging regional typologies, developing institutional and human resource capacities to deal with these issues, and co-ordinating technical assistance where necessary. ESAAMLG enables regional factors to be taken into account in the implementation of anti-money laundering measures.

ESAAMLG was launched at a meeting of Ministers and high-level representatives in Arusha, Tanzania, on 26-27 August 1999. **MEMBERS (*having signed the ESAAMLG Memorandum of Understanding*):**²⁴

These are the countries that had signed the ESAAMLG Memorandum of Understanding by February 2003.

1. **Botswana**
2. **Kenya**
3. **Malawi**
4. Mauritius
5. **Mozambique**
6. **Namibia**
7. **Seychelles**
8. South Africa
9. **Swaziland**
10. **Tanzania**
11. **Uganda**

MEMBERS (*not yet having signed the ESAAMLG MoU*):

1. Lesotho
2. **Zambia**
3. Zimbabwe

A memorandum of understanding (MoU) based on the experience of the FATF and other FATF-style regional bodies was agreed to at that meeting. Following the signature of the MoU by seven of the potential members, ESAAMLG came into formal existence.

All members are Commonwealth countries, which have committed to the FATF Forty Recommendations. The group held its first meeting on 17-19 April 2000 in Dar es Salaam, Tanzania. Following the events of 11 September 2001, ESAAMLG expanded its scope to include the countering of terrorist financing. The ESAAMLG Secretariat is located in Dar es Salaam, Tanzania.

It is disheartening to note that Zambia is one of the few member countries that has not yet signed the Memorandum of Understanding when we are at such a threat from Money Laundering activities.

CONCLUSION

The effects of Money Laundering are wide spread and their magnitude and consequences clear to all. The Prohibition and Prevention of Money Laundering Act has, in Zambia, laid a foundation and will serve to deter the use of the Zambian financial and other systems as sites to launder dirty money.

But still, the challenge remains for the legislature to recognise that technology and globalisation has given money launderers an opportunity to explore new techniques to commit and cover their crimes. This therefore requires more vigilance, dynamism and resourcefulness to thwart and overcome the scourge. In addition, full co-operation from the Banking industry – because it is most at risk of being a conduit of money laundering – in implementing various guidelines. We must also enhance co-operation with other stakeholders locally, within the sub-region and internationally because money laundering thrives in piece-meal implementation of standards and laws.

Globalisation has had an impact, both negative and positive in the world. But as this paper has endeavoured to show, some of the negative consequences of the globalisation of the world economy are, indeed, the ease with which criminals such as those involved in money laundering carry out their criminal activities. And in a country like Zambia, which still does not have a very strong economy, the effects can be horrific. Maybe at the moment, there is no tangible evidence to suggest that globalisation has increased the incidence of money laundering in Zambia, but going by literature that has been written on the effects of globalisation on Money Laundering in the developed countries, we can not

be too careful in trying to make certain, that we do not fall into the same trap as those countries that have been swamped by money laundering due to globalisation. If it has happened to developed countries, it can most certainly happen in Zambia.

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