THE ASSESSMENT OF CONSTRAINTS FACING BANKING INDUSTRY INITIATIVES IN CONTROLLING MONEY LAUNDERING: A CASE OF NMB

By
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2014
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, dissertation thesis entitled “The Assessment Of Constraints Facing Banking Industry Initiatives In Controlling Money Laundering: A Case of NMB”, in partial fulfillment of the requirements for award of the degree of Master in Science (Accounting and Finance) of Mzumbe University.

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I Erick Mateso, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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Date________________________

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The long journey of the research project is now coming to an end and for sure I am very pleased to arrive at this point. Those who have experience of writing a master dissertation will admit that an individual effort cannot suffice to accomplish a project of this kind. Hence, I feel obliged to express my appreciation to different individuals and institutions for the various assistance they have provided to make my ambition of this study come to fruition. Unfortunately, it is impossible to mention all of them here. Nevertheless, few will be mentioned because of their special support.

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Beyond the academic, research and career premises, there is a significant and precious social landscape. I am grateful to my parents, Felix Kapinge and Martina, for their great paternal and maternal care in all spheres of my life. Similarly, I sincerely express my deepest gratitude to the one instrumental person in my current family life: my wife, Prisila. I am indebted for her immeasurable love, patience and emotional attachment. Her sacrifice provided in different kinds and styles has been the soil in which this achievement has grown.
DEDICATION
This dissertation is dedicated to my parents, Felix Kapinga and Martina, whose counseling and encouragement influenced me to study hard. Special dedication is due to my beloved wife, Prisila, who encouraged me to work hard so as to attain the expected goal within the expected period of study.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AML</td>
<td>Anti Money Laundering</td>
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<tr>
<td>SIDO</td>
<td>A Small industries development organization</td>
</tr>
<tr>
<td>ESAAMLG</td>
<td>Eastern and Southern African Anti-Money Laundering</td>
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<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
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<tr>
<td>FSRBs</td>
<td>FATF-Style Regional Bodies</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>KYC</td>
<td>Know your Customer</td>
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<tr>
<td>NCCTs</td>
<td>Non Cooperating Countries and Territories</td>
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<tr>
<td>SPSS</td>
<td>Statistical package for Social Small Enterprises Development</td>
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<td>USA</td>
<td>United states of America</td>
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The study sought to assess constraints facing banking Industry Initiatives in controlling money laundering a case of NMB. The objectives of the study included: the effectiveness of the law governing money laundering combating, constraints in combating money laundering problem, strategies employed in curbing money laundering problem and solutions to money laundering problem in Tanzania. The study utilized both qualitative and quantitative approaches and a sample size of 353 respondents involving NMB officers. Data were collected through documentary review, interviews and questionnaires and were analysed qualitatively and quantitatively. Qualitative data were subjected to content analysis, while quantitative data were extracted, classified and computed using Excel into frequencies and percentages, and presented in tables and charts.

Findings of the study revealed that NMB workers were aware with existence of money laundering problem in Tanzania. The findings also revealed that the reforms brought changes on money laundering which had also an impact on decline the money laundering reported cases. The implementation of money laundering policy reform components enhanced the efficient and effective curbing money laundering problem. The study findings revealed that level of which money laundering strategies control the problem is between 25-45 which is equivalent to 44%. The findings also indicate that 34% of the respondents said that lack of experts affects the effective of banks in controlling money laundering problem compared to 26% who said weak strategy making forum for banks and 12% attributed the problem to the lack of technology and only 18% said corruption. These findings indicate that in order for the money laundering strategies to be effective, NMB need to have enough experts on money laundering behavior as well as enough modern technology. Based on the research findings, the study concludes that commercial banks are urged to develop programs against money laundering that minimally would see the development of policies and procedures and the involvement of management in the process. Ongoing employee, training programs and audit checks of the system are also recommended. The study recommends that money laundering curbing strategies should not begin and end when client enters the bank. Banks has to develop personal relationships
with their clients by visiting the client’s homes and arranging their financial affairs. As the result customer will feel loyal but also bank will be able to know more of that clients, this should be done in particular by Relationship managers (RMs). This will help the bank minimize warning signs and can stand as controls designed to detect or prevent money laundering.
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CHAPTER ONE

1.1 Introduction
This section presents study problem on constraints facing bank industries in curbing money laundering in Tanzania. Money laundering refers to process by which “dirty” money is made to look legitimate or “clean” so that the funds may be freely used (Moshi 2002b). The Vienna Convention: the first international Anti-Drug Convention defined money laundering (UN) in 1998.

In the recent years money laundering and terrorist financing become a burning issue among the developed and developing nations. Worldwide, governments are recently spending a considerable amount of their budgetary expenditure to protect the economy from the financial criminals; as such crime is not only hampering the country itself, but also the other countries around them. On the other hand, financial globalization makes it easier for the criminals to transfer funds from one country to another, by avoiding the rule of financial transactions among the countries. Initially the financial crime was the reason for socio-economic and financial disruptions among the countries. More recently, (after 9/11) such activities fueling the terrorism activities around the world for which countries, where financial crime occurred and where the money transferred both have to take co-coordinated measure to protect their respective economy from the terrorist. KPMG (2007) survey finds that money laundering flows by drug dealers, arms traffickers and other criminals reported to be in excess of USD 1 trillion every year. Therefore, combating money laundering and its related consequences, for example, terrorist financing continues to be a major challenge for the local and international policy makers.

Money launderer use diverse and innovative methods to conceal their criminal activities. Financial institutions are the most widely used route to transfer illegal funds and convert those funds to legal identity. Different number and variety of transactions used to launder money, often involving numerous financial institutions from many jurisdictions, and increasingly using non-bank financial institutions. Therefore, when a financial institution is used unwittingly by criminal elements or
terrorists, it is not only damage to its reputation, but also the national reputation as well (Aninat et al. 2002). Among the developing countries, money laundering increases the probability of default or fraudulent activities among the financial institutions and therefore distorts the financial stability of the economy.

Over the centuries it has been important for criminals to legitimise the proceeds of their criminal activities by converting the funds derived from criminal activity to funds that appear to be legitimately obtained. Preventing criminals from using the financial institutions to launder the proceeds of crime has therefore become a standard feature of the fight against crime. After the tragic events that took place in the United States on 11 September 2001 a number of governments called for a rapid and co-ordinate effort to detect and prevent the use of the world financial system by terrorists. This was based on the general recognition that effective efforts to combat money laundering cannot be carried out without the co-operation of financial institutions, their supervisory authorities and law enforcement agencies. Launderers are continuously looking for new routes for laundering their funds. Economies like that of Tanzania bank industry, with growing or developing financial centres but inadequate controls, are particularly vulnerable. There is therefore a need for money laundering to be fought in Tanzania bank industry by establishing a comprehensive anti-money laundering strategies and by providing the necessary legal or regulatory tools to the authorities charged with combating the problem, acting in liaison with all the institutions susceptible to money laundering.

1.2. Background to the problem
Money laundering phenomenon was not so much famous before the September 11, 2001. After terrorist attack of September 11 in USA, financial institutions and the regulatory bodies embarked extensively into introduction of measures to combat money laundering and the financing of terrorism. Countries required adapting the international Ant Money Laundering standards developed by the Financial Action Task Force (FATF) and of Basel Committee (McDowell et al, 2008).
The Financial Action Task Force (FATF) was established in 1989 by the G7 countries to respond more effectively to money laundering. It is the main policy body responsible for setting AML standards. It promotes legislative and regulatory reforms to prevent and combat money laundering and the financing of terrorism. In October 2002, the FATF, the World Bank and the International Monetary Fund (IMF) adopted a single, comprehensive assessment methodology (Moshi 2003). In 2004 the AU also adopted a protocol to the OAU Convention on the Prevention and Combating of Terrorism that captured the parties’ commitment to implement fully the provisions of the Algiers Convention and, among other things, to identify, detect, confiscate and freeze or seize any funds or other assets used or destined to be used for committing a terrorist act and to establish a mechanism to use such funds to compensate victims of terrorist acts or their families.

In 2006 Tanzania rectified Anti-Money Laundering and various guidelines issued by the Financial Intelligence Unit when dealing with various customers. The Anti-Money Laundering Act of 2006 emphasis on “know your customer.” It emphasis on the importance of the financial institutions to ask for ID documents, address, date of birth, etc.

Also the number of strategies have developed in fighting with money laundering in Tanzanian banks, namely prevention, criminalizing of money laundering, the requirement of a financial intelligence unit, the requirement of financial institutions reporting of suspicious acts, confiscation of ill-gotten money and the training of magistrates, reporting persons and other responsible officials. Preventative measures include:

- Customer ID and due diligence
- Record keeping requirements
- Suspicious transaction reporting
- Balancing privacy laws with reporting and disclosure requirements
- Internal controls at the financial institution
- Regulations and supervision.
Despite of aforementioned strategies, Tanzania still is considered as a regional financial center. The financial sector in the country is growing very rapidly and dominated by national and international financial institutions. Bagenda (2008) noted that Tanzania is still having weak financial system which attracts money launderers. The size of the country as well as its proximity to major countries like South Africa, Kenya, Zambia, Burundi etc make it a transit country for illegal operations in those countries and, to some extent, in the rest of the Southern African region. Proceeds derived from the sale or trade in drugs from nearby countries has increased and cash gained from this sale of drugs and other illegal activities are used to buy goods for retail outlets and to build houses. Bagenda (2008) shows that Tanzania has weak financial system and its regulations lack enforcement. This leads to the country labeled among high-risk countries.

1.3. Statement of the problem
Bagenda (2008) noted that Tanzania is still having weak financial system which attracts money launderers. Despite, it is hard t have correct number of money laundering problem in Tanzania bank industry but according to Bagenda (2008) millions of money was used in money laundering business. Despite the of negative effects of money laundering to the Tanzanian economy, researcher found little no study has been conducted on constraints facing banking industry in combating the prob. It is evident that money laundering in Tanzania is still the problem despite the internal and national policies and strategies already in place. However, despite the setting up of international instruments and laws to restrain this crime, its evil activities still exits and is even increasing in most cases Tanzania being part thereof. With new advanced technologies compounded with globalization, it is easier for sophisticated launderers to continuously look for opportunities available worldwide in laundering their proceeds. Therefore this study tried to investigate as constraints facing Tanzania bank industry in curbing money laundering problems.
1.4. General objective

1.4.1. Main objectives
This study aimed at assesses of constrains facing banking industry initiatives in controlling money laundering: a case of NMB.

1.4.2. Specific objectives
This study specifically, intended to:
1. Analyze the effectiveness of the law governing money laundering combating
2. Examine the constraints in combating money laundering problem
3. Assess the strategies employed in curbing money laundering problem
4. Find sustainable solutions to money laundering problem in Tanzania

1.5. Research questions
i. How effective is the law governing money laundering combating?
ii. What are the constraints in combating money laundering problem?
iii. What are the strategies employed in curbing money laundering problem?
iv. What are the sustainable solutions to money laundering problem in Tanzania?

1.6. Significance of the study
The study is significant from both academic and practical points of view. Academically the study is a partial fulfillment for the award of MSc in Accounts and Finance to the author. The significance of the study that is likely to be drawn from the conclusion and recommendation will include the following:
   ✤ The study will act as a basis for researchers on the issues raised concerned with practices of curbing money laundering problem in bank industry.
   ✤ It will help the policy makers dealing with the banks to formulate new or redefine the existing practices in a manner that effectiveness is achieved and money laundering problem is being solved.
   ✤ It will shade a light to general public on the effectiveness of law governing money laundering combating in Tanzania and achievement reached.
It will provide additional contribution to the existing literature dealing with money laundering particularly on the practices employed by such bank.

It will provide a contribution in terms of attempts to be taken in curbing money laundering problems

1.7. Scope of the study
The study focused only on constrains facing banking industry initiatives in controlling money laundering. The study assumed that money laundering was still the challenges to bank industry in Tanzania. The study was carried out at Ilala district using NMB Headquarter as the case study; this was the case due to the time and the financial constraints otherwise the study would have covered a greater number of the NMB branches and other financial institutions to a greater geographical area so as to attain a more desirable results. The study touched issues pertaining constraints NMB face in curbing money laundering problem. The study was conducted from January to July in 2014.
CHAPTER TWO
LITERATURE REVIEW

2.1. Introduction
This chapter is concerned with surveying the literature connected with the study. Its sections include review of the theoretical and empirical studies. For this case documentation of the comprehensive review from the articles, journals, books, dissertations, published and unpublished documents from the library and websites is likely to be developed.

2.1.1. Defining Money Laundering
Taking effective measures to combat money laundering requires one to have a good idea of this crime and how it is carried out. The goal of a larger number of criminals acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. Money laundering is defined as “when the commercial banking channel is used to get funds illegally.” it is called money laundering. In this way the commercial banks do not follow the rule regarding customer identification and his source of income. Money laundering is also defined as “The money screamed across the wires, its provenance fading in a maze of electronic transfers, which shifted it, hid it, and broke it up into manageable wads which would be withdrawn and re-deposited elsewhere, obliterating the trail (Bruton, 1999). Another definition is “Money laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source.”

Bruton (1999) argues that money laundering occurs in almost every crime where there is an apparent financial motive. People who commit to most crimes have the inherent requirement to hide the fact that their wealth came from a criminal act and so the necessity to disguise the money. Jurith (2002) and Wells (2003) claim that criminals mostly seek to profit from lucrative activities hence they are involved in drug trafficking and other high pay-off crimes.
Bagenda (2003) defines Money Laundering as the manipulation and the use of money or property to hide its illegal source or the criminal origin by using it in a legal or illegal activity. Bagenda (2003) further brought into the scope of Money Laundering two dimensions of what constitute money laundering and these are the national or domestic and the transnational.

2.1.2. Background History of Money Laundering

Money laundering has been with us for centuries (Graham (2003) its origins can be traced since the 1930's, when notable gangsters like Meyer Lansky and Al Capone were prevailing. They tried to find a way on how to hide their criminal money by venturing on car wash services, vending machines, and laundry services. It is in this context that the term money laundering may have been coined. Their exploits founded money laundering methods still in practice today. Since then, it has gained in proportion and is almost impossible to measure its exact global amount. Money laundering as a crime only attracted interest in the 1980s, essentially within a drug trafficking context. Along this the terrorism and high jacking was also a reason to increase the awareness of the commercial banks and developed nation regarding the issue of money laundering. After September 11, 2001 when the world marked as the high time for fighting for money laundering because of an increasing awareness of the huge profits generated from this criminal activity and a concern at the massive drug abuse problem in western society.

i). Anti-Money Laundering

Anti-Money Laundering is the term used by banks and other financial institutions to describe the variety of measures they take to combat illegal activity. Anti-money laundering techniques are designed to make the system transparent and to curb the issue of money laundering. These processes control and help banks and financial institutions protect themselves and their reputation from the criminals. They apply regulatory obligations, restrictions, legal formalities and policies to screen the process of money transfer.
In all major jurisdictions around the world, criminal legislation and regulation make it mandatory for banks and financial institutions to have arrangements to combat Money Laundering, with harsh criminal penalties for non-compliance. Anti-Money Laundering processes, controls and helps banks and financial institutions protect themselves and their reputation from the criminals. It prevents criminals from using individual banks and the financial system in general as the channel for exploiting their illegal gains.

2.1.3. Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) can be seen as the international standard-setter in the fight against terrorist financing and money laundering. It was established in 1989, by a Group of Seven (G-7) Summit held in Paris. The summit recognized the growing threat posed by money laundering to the banking system and financial institutions and set up the FATF to develop and promote national and international policies, globally, to help eliminate this threat. In 2001, the FATF took over responsibility for the development of standards in the fight against terrorist financing.

The FATF’s main responsibility is to ensure global action to combat money laundering and terrorist financing is undertaken. Since its creation, the FATF has been at the forefront of measures designed to counter criminal attempts to use the financial system to further criminal and terrorist purposes. Most notably, in 1990 the FATF established a series of money laundering recommendations. In 2001, they established a series of special recommendations on the prominent threat of terrorist financing, collectively known as the 40+9 Recommendations whose aim was to unite anti-money laundering and terrorist financing efforts into one universal instrument.

The FATF examines techniques and counter-measures and reviews whether existing national and international policies are sufficient to combat the developing threat. The
FATF monitors compliance with the 40+9 recommendations through a two-pronged strategy.

Firstly, member countries complete annual self-assessment style questionnaire and secondly, the FATF regularly conducts on-site Mutual Evaluation Report examinations on individual jurisdictions, assessing the effectiveness of their national policies in dealing with money laundering and terrorist financing. The importance was reiterated in 2005 by the United Nations Security Council:


2.1.4. FATF Money Laundering Recommendations
Global efforts to combat money laundering and the financing of terrorism have been tailored to attack criminal and terrorist organizations through their financial operations. The strategy has been aimed at depriving them of the means to act and gain knowledge of how their financial networks and methods work in order to prevent any future operations.

The 40 recommendations mentioned above are intended to provide counter-measures against money laundering and encompass the criminal justice system, law enforcement, the financial system and its regulators, together with international co-operation. They also set out principles and minimum standards for action. Countries are free to implement the details of the recommendations in the manner they choose, in order to fit them into their own constitutional frameworks. Despite not being binding, many countries have chosen to make a commitment to implement them in order to combat money laundering.

The recommendations were first published in 1990, and have been subsequently revised in 1996 and 2003. They are constantly reviewed and updated to take into
account any changes or anticipated changes in money laundering trends. In 1996, the FATF issued a series of interpretative notes designed to clarify their application. In 2003, the FATF amended the scope of the recommendations to include designated non-financial businesses and professionals. Designated non-financial businesses and professionals are defined by the FATF to include casinos, real estate agents, dealers in precious stones and metals, and lawyers, notaries, other independent legal professionals and accountants.

The 2003 amendments applied, for the first time, customer/client due diligence and record keeping practices to designated non-financial businesses and professionals. They are required to report transactions suspected of being linked to money laundering to the designated authorities.

In the case of lawyers, the FATF recommends that lawyers be excused from this responsibility if their knowledge or suspicions arises as a result of legal professionally privileged circumstances. The 2003 amendments revised the recommendations to include the FATF’s enhanced counter terrorist financing mandate.

Financial Action Task Force (FATF 40 Recommendations October 2003) (incorporating all subsequent amendments until October 2004). The FATF revised the 40 and the IX Recommendations. The revision of the FATF Recommendation was adopted and published in February 2012. Money laundering methods and techniques change in response to developing counter measures. In recent years, the Financial Action Task Force (FATF) has noted increasingly sophisticated combinations of techniques, such as the increased use of legal persons to disguise the true ownership and control of illegal proceeds, and an increased use of professionals to provide advice and assistance in laundering criminal funds. These factors, combined with the experience gained through the FATF’s Non-Cooperative Countries and Territories process, and a number of national and international initiatives, led the FATF to review and revise the Forty Recommendations into a new comprehensive framework for combating money laundering and terrorist financing.
The FATF now calls upon all countries to take the necessary steps to bring their national systems for combating money laundering and terrorist financing into compliance with the new FATF Recommendations, and to effectively implement these measures.

The review process for revising the Forty Recommendations was an extensive one, open to FATF members, non-members, observers, financial and other affected sectors and interested parties. This consultation process provided a wide range of input, all of which was considered in the review process. The revised Forty Recommendations now apply not only to money laundering but also to terrorist financing, and when combined with the Eight Special Recommendations on Terrorist Financing provide an enhanced, comprehensive and consistent framework of measures for combating money laundering and terrorist financing. The FATF recognizes that countries have diverse legal and financial systems and so all cannot take identical measures to achieve the common objective, especially over matters of detail. The Recommendations therefore set minimum standards for action for countries to implement the detail according to their particular circumstances and constitutional frameworks. The Recommendations cover all the measures that national systems should have in place within their criminal justice and regulatory systems; the preventive measures to be taken by financial institutions and certain other businesses and professions; and international co-operation. The original FATF Forty Recommendations were drawn up in 1990 as an initiative to combat the misuse of financial systems by persons laundering drug money. In 1996 the Recommendations were revised for the first time to reflect evolving money laundering typologies. The 1996 Forty Recommendations have been endorsed by more than 130 countries and are the international ant-money laundering standard. In October 2001 the FATF expanded its mandate to deal with the issue of the financing of terrorism, and took the important step of creating the Eight Special Recommendations on Terrorist Financing. These Recommendations contain a set of
measures aimed at combating the funding of terrorist acts and terrorist organizations, and are complementary to the Forty Recommendations.

A key element in the fight against money laundering and the financing of terrorism is the need for countries systems to be monitored and evaluated, with respect to these international standards. The mutual evaluations conducted by the FATF and FATF-style regional bodies, as well as the assessments conducted by the IMF and World Bank, are a vital mechanism for ensuring that the

2.1.5. Processes of Money Laundering
Money laundering is not a single act but in fact a process that is accomplished in three basic steps. Money laundering takes basically place in the following three steps/stages:

i). Placement
This is the first step that occurs by introducing dirty money to the financial system through banks and other financial institutions. Opening of bank accounts using dirty money by individuals or companies as account holders commences the laundering process. If this is successful, then use of the money through credit cards, ATM withdrawals, or transfer payments freely happens. As anti-money laundering efforts try to implement ways of preventing individuals or corporations connected to organized crime and criminal activities from introducing illegal money into the financial system, especially large sums of money, money launderers also become creative in finding loopholes in anti-money laundering regulatory policies (Reuter & Truman, 2004).

Since large sums of money infused into the financial system are easily detectable and reported by banks, money launderers break down the money into small amounts by opening a number of accounts using different individuals or corporations. Purchases of property and things is also another way of indirectly introducing money into the
financial system and the economy such as land, houses, and cars but with precaution since large purchases also draw suspicion (Reuter & Truman, 2004; Schott, 2006). According to the FATF Report (2001; paragraph 39, 16), ‘…cash remains the major if not the primary form in which illegal funds are generated today’. Drug trafficking, for example, produces large amounts of cash which is needed for business expenses such as the purchase of drugs, payment for couriers, bribing corrupt officials, etc. Secondly, it is not only easy to hide cash generated from organized criminal activities from the tax authorities, but also it helps to obscure the criminal source of the income. Finally, cash transactions provide anonymity for the criminals since they don’t want to leave a paper trail of cheques or credit card payments through financial institutions (Bell, 2003).

The following two different methods are commonly used:

a) Primary deposit
Using primary deposits one understands immediate placement of criminal revenues into a legal financial system without attracting attention of regulatory agencies. With the help of structuring “and surfing “limiting amounts are undermined in order to avoid identification, obligations to report and documentation required. Besides, money is split up systematically in small partial amounts as to permit in payment in several bank accounts below respective identification and declaration limits. Another method of placement tries to influence the control mechanisms of the institutes of the financial sector in terms of purchasing existing banks or starting-up new banks in offshore countries.

Moreover, to bribe the bank employees, is a commonly used (illegal) instrument to place criminal money: Thereby many attempts are made to bribe bank employees in order to allow a direct infiltration of criminal money without attracting attention of supervisory authority. Depositing criminal currency to bank accounts abroad provides another opportunity to enter the legal financial or economic system as well.
b). Secondary deposit

Unlike the primary deposit of criminal money, secondary deposit is an indirect infiltration of money supply into the Bank system and thus a conversion into book money through interconnection of a natural or legal person. This happens by changing the financial institutions, e.g. incriminated money is converted into other assets via front men, who trade with an account of a third party, or by using other person’s names in order to open an account or to open a company or to buy an insurance policy. Indirect placement can also be accomplished by forwarding the displacement of the money laundering into life insurance companies, financial service providers and exchange offices.

A further technique to launder money is the setting-up of front companies, which in opposition to front men are corporate bodies that infiltrate black money on their banking accounts and therewith into the financial system by means of feigned turnovers. This works only if such firms have a cash-intensive business (e.g. gastronomy, import-export companies, car trade, hotel sector, auctioneers and galleries).

ii). Layering

This is the second step which happens by passing money deeper into the financial institutions through a series of processes intending to redirect ongoing police investigations to other people or in another direction. The intention is also to legitimize dirty money and make it difficult for law enforcement authorities to detect the crime and catch the perpetrators. Money launderers can create fake loans and invoices together with other documents and legalities that would prevent detection or sidetrack investigations.

Layering” refers to the separation of illicit proceeds from their source by creating complex layers of financial transactions. Layering conceals the audit trail and provides anonymity. This is achieved by moving money to offshore bank accounts in the name of shell companies, purchasing high value commodities like diamonds and transferring the same to different jurisdictions. Layering involves the creation of
false documents, the conversion of cash into monetary instruments and the conversion of tangible assets obtained by means of cash purchases (Wright, 2006).

iii). Integration
Integration refers to the reinjection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds. The launderers normally accomplish this by setting up unknown institutions in nations where secrecy is guaranteed. New forms of business give a platform for integration exercise. Now a person can start a business with just a webpage and convert his illegal money to legal by showing profits from the webpage. There are other ways like capital market investments, real estate acquisition, the catering industry, the gold market, and the diamond market. Money laundering, at its simplest, is the act of making money that comes from Source A look like it comes from Source (Wright, 2006)

2.1.6. Financial Action Task Force on Money Laundering
The Financial Action Task Force (FATF) is an inter-governmental body founded by G7 Countries (Canada, France, Germany, Italy, Japan, United Kingdom), created in 1989 whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. FATF adopted a multi-disciplinary approach to money laundering issues, bringing together the policy making power of legal, financial, and law enforcement experts. FATF's membership consists of twenty-six countries and two international organizations. Since its inception, FATF has issued reports containing suggestions aimed at combating money laundering problems.

In 1990, FATF issued its Forty Recommendations on Money Laundering, which made broad suggestions, such as improving national legal systems, enhancing the role of the financial system in reporting and monitoring suspicious activity, and strengthening international cooperation. The 40 recommendations of the Financial Action Task Force on money laundering (FATF) have been established as the
international standard for effective antimony laundering measures. FATF regularly reviews its members to check their compliance with these Forty Recommendations and to suggest areas for improvement. It does this through annual self-assessment exercises and periodic mutual evaluations of its members. The FATF also identifies emerging trends in methods used to launder money and suggests measures to combat them.

FATF further recommended criminalizing the laundering of money derived from drug trafficking as proposed by the 1988 Convention. The recommendation 5 of the Financial Action Task force states the measures to be taken in identifying a customer, they are as follows:

Identifying the customer and verifying that customer's identity using reliable, independent source documents, data or information. Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the financial institution is satisfied that it knows who the beneficial owner is. For legal persons and arrangements this should include financial institutions taking reasonable measures to understand the ownership and control structure of the customer.

2.1.7. Tanzania Legislative Measures on Money Laundering

As already mentioned above the United Republic of Tanzania is among the world states that have made attempts to regulate its financial sectors and criminalize money laundering and the financing of terrorism. Further the Central Bank of Tanzania has taken legal steps to keep illicit proceeds away from its financial sector by enacting laws and imposing regulations on banks and other financial institutions on what actions to take in a situation in which a customer is suspected of money laundering.

The Anti Money Laundering Act, Cap 423 (AML Act 2006) was enacted in 2006 and became effective in July 2007. To facilitate implementation of the AML Act 2006, on 14th September 2007, the Minister for Finance and Economic Affairs issued the Anti-Money Laundering Regulations, 2007. Prior to the enactment of the AML Act
2006, money laundering offences in Tanzania were addressed under the Proceeds of Crime Act, Cap 256.

Apart from that Tanzania has number laws relating to money laundering and financing of terrorism offences and their penal provisions; these include, The Extradition Act, Cap 368; The Proceeds of Crime Act, Cap 256; The Criminal Procedure Act, Cap 20; The Mutual Assistance in Criminal Matters Act, Cap 254; The Evidence Act, Cap 6; The Economic and Organized Crime Control Act, Cap 200; The Banking and Financial Institutions Act, Cap. 342, the Gaming Act, Cap 41, Prevention of Terrorism Act, Cap 19 and the Anti Trafficking in Persons Act, No. 6 of 2008. In 2000 the Bank of Tanzania issued the Bank of Tanzania Circular No. 8 on Money Laundering Control. This circular prescribed money laundering control requirements for banks.

The Government of Tanzania established the National Committee in 2002 also Tanzania is the member of The Eastern and Southern Africa 'Anti-Money' Laundering Group (ESAAMLG). The responsibilities of the National Committee which include formulating, assessing and improving the effectiveness of policies and measures to combat money laundering, advising the Government on legislative, regulatory and policy reforms other issues pertaining to AML

Considering banking services, banks represent a natural and logical vehicle for launderers. Graham, Bell & Elliott (2003) stated that cash deposits, basic banking services and wire transfer facilities are the core means of money laundering. The wealthier launderers will look for specialist private bank services and investment houses that offer wealth management services.

Notwithstanding this, enquiries have revealed that there is a high level of awareness of the problem of money laundering among law-enforcement agencies and banking institutions. However, in other commercial sectors where money laundering can and does occur, e.g. non-bank financial institutions, the vehicle industry and the property industry, the level of appreciation of what is involved in money laundering and how
these sectors can be used in money laundering schemes is low, if not altogether non-existent.

Following the Basel Committee statement (1988), Johnson and Lim (2002) stated that financial institutions including banks may be willingly or unconsciously be used as intermediaries for money laundering since they remain an important mechanism for its disposal. Mascaindaro (1995) strengthen this theory by stating that money laundering occurs either by passively using bank agents or by actively using criminal banks.

2.1.8. Reasons for fighting money laundering

After the Vienna Convention introduced the working definition of money laundering and eight years since the Palermo Convention expanded the definition of money laundering to cover other criminal sources of funds apart from drug trafficking. Efforts continue as money laundering continues to evolve. Countries and governments adopt regulatory measures in addressing money laundering involving their jurisdiction. Cooperation at the international level has commenced by linking anti-money laundering regulations to make it easy to track down dirty money and prevent its legitimization and introduction to the economy. The underlying reason for these efforts is the different impacts of money laundering, which also comprise the reasons for fighting money laundering.

First reason for fighting money laundering is its necessity in addressing other serious crimes. As mentioned earlier, money laundering has predicate illegal actions. This means that money laundered has an illegal source, which means that an income deriving crime occurred to come up with dirty money subject to laundering. Most crimes related to money laundering rely on the laundering process to use the money derived so that fighting money laundering would mean limiting the ability of criminals to legitimize dirty money. If dirty money is hard to legitimize, then this is a disincentive for criminals to commit the crime or the lack of venues for money laundering would push criminals to engage in easily detectable use of dirty money to
enable law enforcement officers to catch criminals. In the case of drug trafficking and smuggling, these involve large shipments and moneymaking transactions using funds from these criminal acts making it easy to detect by law enforcement authorities (Madinger, 2006).

Second reason for fighting money laundering is the prevention of further crime. The failure to solve money laundering allows crime perpetrators to reap the benefits of their illegal action, which makes crime an attractive activity. Money laundering constitutes an incentive for many criminals to commit crimes since they have a way of legally experiencing the benefits of the money derived from their criminal actions. By removing this incentive, this prevents or minimizes the commission of crime that benefits or largely depends on mechanisms of money laundering. Addressing money laundering is a rational solution not only to the legitimization of dirty money but also other crimes closely connected to money laundering such as smuggling, money laundering, and more recently even terrorism (Masciandaro, 2004; Madinger, 2006).

Third reason for fighting money laundering is the economic disadvantage of the infusion of dirty money into economies. Laundered money, although invested into the financial system, comprise fast cash investments that only use the financial systems of various countries to legitimize the money. Laundered money rarely stays in the economy. Since money that enters the economy comprises determinants of growth and monetary policies when considered in relation to the money leaving the economy, fast cash could create a false sense of growth in economies that would eventually leave. Commonwealth Secretariat,(2006).

Fourth reason for addressing money laundering is to maintain the stability of financial systems. The proliferation of money laundering challenges the integrity and reputation of banks and other financial institutions by creating opportunities for corruption. Money laundering becomes easier with partners working in financial institutions to handle and advice on the means of placing dirty money into the financial system without detection. As such, banks and bank employees become targets for corruption by money launderers to seek their participation in the
commission of the crime. When this happens, people would no longer trust their money with banks resulting to the lack of funds for loans that support business ventures. Ultimately, the economy feels the effect through the slowing down of growth Commonwealth Secretariat, (2006).

Fifth reason for fighting money laundering is to distinguish clean from dirty money and allow only clean money to enter the economy to support the vibrancy of the financial system and its role in support economic growth. The effectiveness of the financial sector in supporting growth largely depends on its ability to draw legitimate investments into the economy. The financial system can effectively play its role with the implementation of effective anti-money laundering policies.

By addressing money laundering, the financial system does not spend resources in handling laundered money that would not remain in the economy. In addition, by fighting money laundering, the financial system is also able to divert funds to productive activities such as business expansion instead of supporting the allocation of funds to unproductive activities such as the acquisition of luxury items without creating a strong economic impact (Commonwealth Secretariat, 2006).

Sixth reason for fighting money laundering is maintaining the stability of the legal system and government processes. Allowing money laundering to proliferate undermines public perception of the effectiveness of laws, law enforcement authorities, and legal processes to control and prevent large-scale and serious crimes. Persistent negative public perception erodes the ability of the legal system to draw compliance not only from criminals but also from the public. A legal system considered as weak does not exercise sufficient disincentive for people not to further commit crime or to commit crime in the future. Commonwealth Secretariat, 2006

Seventh reason for fighting money laundering is to maintain government control over organized crime. Organized crime is difficult to resolve because of the scale of criminal activity, the wide-range and number of members, and the rich experience that the members have in working around the law or recognizing legal loopholes
from their long period of operation. This means that solving organized crime involves due government effort.

Organized crime largely depends on money laundering, to enjoy money derived from crime, the solution to money laundering amounts to the strength of the government in controlling organized crime. Controlling organized crime is importance to effective governance because this ensures the ability of the government to make decision without the influence of organized crime (Commonwealth Secretariat, 2006; Lilley, 2006).

2.1.9. International Development and Control Mechanism on Anti-Money Laundering

Most of the international initiative, such as BASEL II, FATF, Wolfsburg group, EU third money laundering directives, on money laundering given emphasis on the improvement of corporate governance and senior management accountability of the banking firm to combat money laundering. In 1986, United States (U.S.) adopts the Money Laundering Control Act for the first time to protect the system from the launderer. Later on most of the developed and developing countries adopted different AML principles prepared by the different international organizations.

The United Nations Vienna Convention 1988 is the first inter-governmental initiative against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention) and the 1990 Council of Europe Convention on Laundering. As a signatory state on Vienna Convention (VC) Bangladesh will have international cooperation in investigations and makes extradition between the signatory states applicable to money laundering. However, such co-operation would not interfere to the secrecy of domestic financial institutions according to the VC (BB 2008).

The Financial Action Task Force (FATF) is an inter-governmental 'policy-making body' whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing. The FATF works to
generate the necessary political will to bring about legislative and regulatory reforms in these areas. It has published 40 + 9 recommendations in order to meet this objective (FATF, 2011).

Apart from FATF, UN, IMF, World Bank and Basel Committee on Banking Supervision have also policies on anti money laundering. The Bank for International Settlements (BIS) has endorsed key elements of the anti money laundering practices as explicitly supportive of sound banking practices that reduce financial risks for individual banks and, by extension, national and international financial systems as a whole. In close collaboration with many G-10 and non-G-10 supervisory authorities, the Basle Committee has moved more aggressively to promote sound supervisory standards worldwide and formulates no of guidelines relate to money laundering control.

Among the different guidelines formulated by the Basel Committee, sound KYC (Know Your Customer) policies and procedures are critical in protecting the safety and soundness of banks and the integrity of banking systems. KYC policies promote sound banking practices, which can be seen in the prudential problem of "concentration risk" (an element of credit risk).

Thus, prudent banking policy demands that no single customer becomes a dominant client, so that it reduces the possibility of involvement of financial firm with the criminals or criminals undertake the activities of financial firms. Most recently the Wolfsberg group formulated „Trade Finance Principles 2011” for the members. These principles will support as a standard for the control of the AML risk associated with the financial institutions trade finance activities. Among others, Egmont group, Interpol and Global programme against money laundering involved in enforcement of anti-money laundering measures. Most of the global banks operated in different countries are following the rules and principles of these international agencies.
2.1.10. Impact of Money Laundering (ML)

Banks, equity markets, and non-bank financial institutions (NBFIs), such as insurance companies, are a favored means of laundering illicit funds both internationally and within developing countries. Defining ML as part of financial abuse IMF (2001) defines financial abuse as a broad concept of illegal financial activities which has devastating impact on a country's financial system and legal activities. The paper has identified three types of financial abuse on the basis of financial institutions (FIs thereafter) involvement in the financial crime: as victim, as perpetrator, as an instrumentality. As a victim, FIs can be subject to the different types of fraudulent activities including, e.g., misrepresentation of financial information, embezzlement, check and credit card fraud, securities fraud, insurance fraud, and pension fraud. When FIs used as perpetrator, FIs can be used to sale fraudulent financial products, stock manipulation, and misappropriation of client funds. As an instrumentality FIs are used to keep or transfer funds, either wittingly or unwittingly, that are themselves the profits or proceeds of a crime, regardless of whether the crime is itself financial in nature. These types of crimes appropriately defined as Money Laundering. On the basis of the above understanding the impact of ML can be explained from the point of impact on financial sector and on the real sector.

i). Financial Sector

Throughout the world, banks have become a major target of ML operations and financial crimes because they provide a variety of financial services and instruments that can be used to conceal the actual source of money. Money Launderers attempt to conceal their real identity to the bankers with their polished, articulate and disarming behavior, convert their dirty money into white money. As argued by Singh (2009), launderers generally use the financial system in two stages to disguise the origin of the funds. First, they place their ill-gotten money into financial system to legitimize the funds and introduce these funds in the financial system and second, after injecting the dirty money into the financial system, through a series of transactions, they distance the funds from illegal source. Therefore, the financial institutions
through whom the „dirty money” is laundered become unwitting victims of this crime.

Money Laundering may hamper the reputation of the financial institution and may increase the operational risk of the banking firm when banking firm itself involved with the launderer or in criminal activities (Bartlett, 2002). Thus, without even involvement in any criminal offence, money laundering may be a cause of failure of banking (financial) sector of an economy. People may lose their confidence on the banking system. Such confidence failure towards the formal sector may increase the activities of informal financial firm. The growth of activities of the informal sector might again increase the possibility of money laundering such as credit union, hawala remittance systems etc. (Chêne, 2008).

Money laundering shifts the economic power to the criminals (Bartlett, 2002). In such a situation, criminals may use their economic power to undertake the operation of the financial firm of the country and may use the fund of the depositors to do more criminal activities. Therefore, the scarce financial resources of the developing country may be used for the criminal activates of few launderers, instead of productive investment of the economy. Such criminal activities can lead to more terrorism against humanity. Even, money laundering and terrorist financing can threaten financial stability and economic prosperity, adding to the gravity of the underlying crimes (Aninat et al. 2002). In the extreme scenario, money-laundering activity undermines capital formation within developing economies (Bartlett, 2002).

The increased use of online banking reduces the cost and time of the customers and increases the profitability of banking firm with faster banking service to the customers. The money launderers use the online transaction as a method of money laundering and therefore, reduce the confidence of the customers and the profitability of the banking firm (Holahan, 2006). To combat cyber crimes regulations and technologies related to online banking needs to keep updated by the regulators and the FI’s. As a result the, both the users and the service providers might face additional cost for online transactions.
Real Sector

The ease of money laundering in the financial sectors leads to increased money laundering in the real sector (Bartlett 2002). If the financial sector is not strong enough to combat ML, then the criminals marginal cost to do ML will be reduced and they would be able to do more ML with the same cost. Such ease of ML has devastating effect on production, employment and distribution. More and more economic power would be concentrated to the launderers and they might use the resources for personal interest rather than development of real economy. Such power concentration may also reduce the financial ability of the government to invest in real sector growth or to invest in combating ML (Rahman, 2007).

As argued by Bartlett (2002), the most important effect of money laundering on the real sector is the reduction of investment in the productive sector. By increasing sterile investment1 in the economy launderer create “crowding-out” situation in the system. By reinvesting in such sector, the criminals increase the price of the sector, or the value of the assets, which means more unproductive investment and more money laundering. Supporting the argument Agarwal and Agarwal (2007) argued that in the recent decades the real estate sector being the most commonly reported entities associated with money laundering and related illicit activity Although it is not possible to identify the appropriate level of black money investment in the real estate sector as a means of money laundering, however, several studies found that in some developing countries despite reduction in real growth, real estate investment booming (Fryer, 2007). Such over investment leads to asset price bubble and could be a cause of banking sector failure.

Money laundering encourages more import in an economy, leading to less production and more unemployment. ML may also be a cause of macroeconomic instability in the developing countries. Laundered money may increase the instability in the exchange rate, increased supply of fund in the market leads to price push inflationary effect in the real sector (Rahman, 2007, IMF, 2001). Such inflationary pressures increase the interest rate in the economy and therefore less investment, less growth, unemployment and in the extreme situation increased possibility of loan
default in the financial sector. Distortion in the real sector may have reputational impact for the developing countries (IMF 2001, Singh 2009). If macroeconomic instability exists for longer term foreign investors may not be interested to invest in such economies. Less foreign investment means, lower growth, lower productivity and unemployment. Moreover, unstable real sector means reputational cost and again less foreign and local investment. Therefore, the real consequences of money laundering cannot be overlooked for longer period, since it will be very difficult for a country to overcome from such costly consequences.

2.1.11. Challenges to Combat Money Laundering by the Financial Institutions

Combating money laundering is a dynamic process. The criminals who launder money are continuously seeking new ways to achieve their illegal ends. Although various guidelines and legal acts formulated around the globe, including Bangladesh, criminals are also trying to protect themselves from the regulatory system by innovative criminal activities to misuse the system for their purpose. Moreover, with financial innovation which usually occurred to avoid law and take the benefit of technological advancement (Mishkin, 2004), are now used by the launderer to conceal their income from the illegal source. Some of the challenges faced by the financial institutions in combating money laundering are discussed below.

Financial institutions are the most widely used route, both in the developed and developing countries. Detection of money laundering transaction in the financial sectors remains a very important challenge to combat money laundering. Different fund transfer methods such as credit card, electronic cash transfer etc., are used by the launderers. It is difficult for the financial institutions to detect the launderer in such transactions. Therefore, to detect the money laundering in the integration process, financial institutions needs to apply “Know Your Customer” policy. However, criminals look for loophole in the KYC procedure in order to perform the integration process. From the regulatory viewpoint success of the KYC procedure is an important challenge to combat money laundering.
Weak legal system and political dishonesty remains an important issue in developing countries to combat money laundering. By using laundered money criminals try to convince the weak regulatory administration of the developing countries. It is not always easy for the developing countries financial institutions to check and take action against all the fictitious transactions, if they are not supported by the regulatory authorities (legal system, central bank and govt. administrations). Therefore, even though rules and laws are exists, challenges remains to implement those rules in practice by the financial institutions in such countries.

One of the very import challenges now a days facing by the developing countries is the costs involved in implementing anti-money laundering (AML) mechanism. With the financial globalization financial institutions are investing in the emerging and developing economies in searching for profit. Free flow of fund around the globe has given opportunity for the launderers to transfer funds from one region to another. In most cases they use shell companies to perform their intentions. Although it is possible for developed economies and large institutions to check such activities, however it is very costly for the developing economies and smaller banking firms. Therefore, it is an important challenge for the developing economies to adopt global anti-money laundering polices. In a sense, it is also a challenge to the success of the global AML mechanism.

Weak institutional framework, especially weak corporate governance regime is an important threat to combat money laundering in developing countries. Bartlett (2002) argued that there is a strong correspondence between anti-money-laundering policies and financial good-governance rules. The agency conflict between the managers and the shareholders, leads to moral hazard behavior by the managers. Such behavior may sometime patronize / encourage money laundering activities to generate higher free cash flow for the managers” self-interest. Therefore, unless the managers are rightly compensated by the owners or are ethically motivated, the success of AML mechanism will remain in questions.
2.2 Empirical literature reviews

According to Brendan (1989) under his study on The Need for Know Your Customer, arguing that banks should embark in setting policies that will assist them know clients there are dealing with. He further recognized the application of Know Your Customer being a vital tool that will assist banks in identifying suspicious transaction before it is too late and also he discovered that most of financial services ignores or fails to recognize the application of KYC method.

However the study did mention the constraints banks face curbing money laundering problem. This study was not done in Tanzania and was done under survey as research design. The current study will be done in Tanzania to see constraints bank industries in the case of NMB face in curbing money laundering problem in Tanzania.

Studies done by Taimur (2007) and Alberto and Florencio (2005) inter alia acknowledge that sound Know Your Customer proved having great impact in many financial institutions after September 11 attack. Despite the challenges bank face in dully application of the policy they still encourage financial institutions to enact a proper legislation and comply with KYC requirements. They pointed out that financial institution they have realized the use of KYC and its impact noted as incidences of their systems to be used by money laundring dropped considerably.

The study was done under survey of 80 states excluding Tanzania and was done in financial institutions but the current study will base on commercial banks in Tanzania under case study to uncover the constraints bank industries face in curbing money laundering problem as well as strategies they use to overcome the challenges. Shawgat (2011) realized that measures to combat money become the focus of any country due to complexity of the problem itself. He concluded that developing countries still have weak financial regime and have inadequate regulatory bodies hence call for states to enforce anti Money laundering initiatives. This study was
done in Bangladesh and reveal that Money Laundering still a problem despite initiatives done by government still there is lack of enforcement of these laws.

Adhering to the conclusion of Shawgat who did the study in Bangladesh under questionnaires survey this current study will be done in Tanzania under commercial Banks by adopting case study to understanding the strategies bank uses in combating money laundering and also searching to see as whether these laws are enforced by FIU.

As concluded by Clark (1998) in his study that despite of the recognition of Know Your Customer as the Ant Money Laundering regime, as proposed by the Financial Action Task Force on Money Laundering (“FATF”), United Nations and other national and trans-national bodies, still countries does not apply it effectively. He further points out that financial institution considers this method as important in data gathering and analysis exercise which He argues as not the case but he encourage the application of the tool as the method designed by FATF to enable the authorities to trace “dirty” money through the financial system. However the above study was done in different environment, this current study will be done in Tanzania to reveal constraints face banks in fighting against money laundering problems and suggesting best way forward.

In summary, all reviewed empirical studies above was done in different environments not in Tanzania and most of these studies was done based on survey as research design. Also researcher in the review of the literatures found no or few studies conducted in Tanzania similar to this study and those found done over years during when the problem was in infant stage in Tanzania. Further taking that the emphasize of anti-money laundering law has just adopted in Tanzania 2006/07 researcher find its high time to conduct such a study to investigate constraints banks face in curbing money laundering problem.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Chapter overview
This chapter deals with the method which was used for conducting this research work to gather and analyze data for the purpose of achieving the research objectives set out in chapter one of this research study. Also included the sampling technique where the rationale behind the choice of particular methods and approach taken.

3.2. Area of the study
The study was conducted in NMB headquarter in Dar es Salaam city. Dar es Salaam has a total population of 3.4 million inhabitants, making it the largest city in Tanzania (Tripp, 1997). Moreover, the region cover an area of 1100 square kilometers and it is the mostly densely populated area in Tanzania (Tripp, 1997). It is located between latitude 6°S and 7°S of the equator (Ngalawa, 2000). The region is hot with an average annual temperature of 26°C, average humidity of 90 percent and 67 percent in the morning and afternoon, respectively (Ngalawa, 2000). It receives an average annual rainfall of 1000mm (Tume, 1999).

The region has three administrative municipalities Ilala, Kinondoni and Temeke. The region encompasses a heterogeneous population of different nationalities (Hellela, 2001). In urban areas, inhabitants are either employed or engaged in large, medium or small-scale businesses. Also, in rural areas, most inhabitants are small peasants with little income. Some are workers in the farms of employed civil servants; some civil servants have built their houses in their farms but work in the city (Hellela, 2001).

3.3. Research design
This study employed explorative survey since it combined elements of qualitative and quantitative approaches. Fraenkel and Wallen (2000) define explorative survey
as a research study which describes existing conditions without analyzing the relationship among the variables. This design deals with phenomena as they exist, and does not attempt to alter anything experimentally (Best & Kahn, 2006). Further, explorative survey is characterized by describing data on variable of interest and it is useful for gathering factual information, data on attitudes and preferences, belief and predictions, behaviour and experiences-both past and present (Cohen, Manion & Morrison, 2000). With regard to this study, the researcher used explorative survey to describe data on variables of interest, factual information, attitudes, preferences of and experiences of respondents concerning teachers’ moonlighting.

This design is very useful as it allowed the researcher to collect data through interviews, documentary review and questionnaire. The collected data included the effectiveness of the law governing money laundering combating, examine the constraints in combating money laundering problem and assess the strategies employed in curbing money laundering problem. Another reason for using descriptive survey was that, according to Omari (2011), descriptive survey design is very analytical, conceptual and inferential, which describes existing conditions by comparing groups of respondents such as subject bank officers, customers and bank layers about their thoughts, opinion and experiences on money laundering problem. Therefore, in this study descriptive survey helped to gather and analyse data as it combined two approaches (qualitative and quantitative) for in-depth and wide information. Hence it enabled acquisition of a rich, robust, holistic description and understanding of the problem under investigation, which is to investigate and explore constrains facing banking industry initiatives in controlling money laundering.

3.4. Population of the Study
Best and Kahn (1986) argue that population is a group of individuals who have one or more known characteristics that are of interest to a researcher. In this research, the population of interest included all banks operating in the banking industry of Tanzania
3.5. Sample size and sampling procedures
Sampling is a procedure by which some elements of a population are selected as representative of the total population (Cohen et al. 2002). In this study, researcher collected data from three different types of respondents. In this study 4 NMB bank branches in Dar es Salaam region randomly was selected to form the sample. The sample size of this study comprised a total of 160 respondents from 4 NMB branches. The sample size has been determined by using Yamane sample size statistical table and formula (Israel, 2003). Yamane proposes that in a population of 500-1000, by using sampling error of 5% with confidence level of 95% and P=.5, the sample size of the study is 353.

These include NMB top managers and front line staffs namely Tellers and customer services staffs who are daily dealing with customers. In this regard, 6 top managers was purposefully be selected while 20 front line staffs and 20 customer services staffs was randomly selected as sample under the study.

3.6. Instruments of data collection
The choice of data collection instruments depends on the how they can serve the purpose of the study the problem posed by a particular or task (Cohen et al, 2002). The choice of instrument used in this study was guided by a specific objectives and key questions whose answers were taped by a particular instrument or a variety of instruments. Therefore, a rage of research techniques and instruments used to collect the data as shown below.

3.6.1. Questionnaires
As far as this study is concerned questionnaires were employed as the tool of data collection. 20 front line staffs and 20 customer services staffs were given structured questionnaires to fill in. The use of questionnaires as a method of data collection in this study is due to the fact that the study is expected to involve a large sample. Cohen, et al. (2002) contends that questionnaires can be sent to a large number of people. They also adds that through questionnaires people can respond to questions
assurance that their responses are anonymous, and so they may be more truthful than they would be in a personal interview, particularly when they are talking about controversial issues.

3.6.2. Interviews
This is a scheduled set of questions administered through oral or verbal communication in a face to face relationship between the researcher and the respondents (Kothari, 1990). This study choose to select the interview method because it provides information, attitude and has a good response rate in that sensitive data can be collected (Kothari, 1990). It is a method in which respondents are free to express themselves thereby giving rise to a wide range of information. The method is applicable to all people regardless their literacy. Data from top bank managers was collected through on the spot interviews.

3.6.3. Documentary review
The researcher collected mostly the secondary data with this method through reading various documents. In this method the data was obtained through review of journals, brochures, previous research works, relevant to the topic under study.

3.7. Validation of instruments
This concern with how close the study results are, when reflected to reality for the matter under the study. To achieve this various measures were directed towards the bank officials and the clients of the bank, such measures included; the questionnaire which was distributed to 5 fellow Masters Students from Mzumbe University Dar es Salaam campus. Before the actual study the researcher conducted a pilot study and finally consulted the supervisor for improvement. Therefore instrumentation and validation was done within the University Academic Advice and assistance from the supervisor before actual study. In order to improve communication through the use of questionnaire, the questionnaire was in English and Kiswahili.
3.8 Data analysis plan
The process of data analysis was preceded by data coding. Since it is difficult to enter the question in SPSS software as it appear in the questionnaire or interview schedule, all questions was coded into respective statistics. Coding prepares data for easy entry and analysis. Each question was coded to obtain variable(s) with the corresponding values. After coding, data was entered into Statistical Package for Social Scientists (SPSS) software for analysis.

Frequencies and percentages were used to determine the constraints face banks in curbing money laundering problem in Tanzania. The Statistics as interpreted and inferences were drawn. Counting of frequencies and computations of percentages was performed to enable analysis and interpretation of the findings. Interview question was presented in themes and some quotations to supplement percentage data. Therefore the computation of percentage enabled the researcher to speculate about constraints face NMB in curbing money laundering problem, they strategies use in overcoming the constraints as well as ways forward.

3.9 Publication and Dissemination of Results
Results were first presented to Mzumbe University and upon approval widely dissemination to the NMB and may be other stake holders for the betterment in curbing money laundering in the banking industry in Tanzania. The findings were expected to be used by other researchers for further study and students for references. The banking industry benefited from this study as money laundering problems was becoming a big problem.
CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 introductions
This chapter presents the study findings and their discussion. The chapter is composed of five major sections; first section presents findings on demographics or characteristics of respondents. The second section presents findings and discussion on the effectiveness of the law governing money laundering combating, the third section presents findings and discussion on the strategies employed in curbing money laundering problem, while the forth section presents and discuss findings on the constraints in combating money laundering problem and ends with presenting and discussing sustainable solutions to money laundering problem in Tanzania.

4.2. Profile of the respondents
This presents the demographic distribution of the respondents by age group, sex and education level. The respondents are mainly NMB managers and few of them were experts in the banking sector. First, respondents were asked to mention their sex as the figure 4.1 indicates
It can be seen male had a greater representation of the whole population. This indicates that male dominate in the bank posits 53% as compared to female respondents who were 47%. This may also, reflect the same pattern in other bank positions as a whole. Second, the respondents were asked to mention their age as table 4.1 indicates below,

<table>
<thead>
<tr>
<th>Age group</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>26-35</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>36-45</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>46-55</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>&gt;55</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

The findings show that most of the respondents were youth with the age group between 26-35 years making up 66% of all respondents. The age group that follows is 46-55 years which makes up 16%, followed by 18-25 group making 12%. With regard to education level, the large number of respondents 39% had degree followed by masters 32% and diploma were only few 29%.
4.3. Effectiveness of the law governing money laundering combating

In determining this research objective, the respondents were asked if they were aware of the law governing money laundering in Tanzania. The table 4.2 below shows the study findings.

Table 4.2: Understanding law governing money laundering in Tanzania

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>102</td>
<td>63.7</td>
</tr>
<tr>
<td>No</td>
<td>58</td>
<td>36.3</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100</td>
</tr>
</tbody>
</table>

The findings above indicate that 102 (63.7%) out of 160 respondents who participated in the study process said that they were aware of the law governing money laundering in Tanzania as opposed to 58 (36.3%) who said that they were not aware. The findings show that most of the NMB staffs understand laws governing money laundering in Tanzania. Therefore it is easy to say they are in a good position to combat money laundering in their section. This is in line with Bagenda (2003) who defines Money Laundering as the manipulation and the use of money or property to
hide its illegal source or the criminal origin by using it in a legal or illegal activity. Proceeds generated by crimes such as fraud, theft, and drug trafficking are made to look as if they were the fruits of honest activities-transformed, for instance, into legitimate-looking bank accounts, real estate, or luxury goods.

The respondents were further asked to state if they were aware of any reforms which have been undertaken to overcome money laundering problem in NMB and the table 4.2 below indicates the study findings from their responses.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>109</td>
<td>68.2</td>
</tr>
<tr>
<td>No</td>
<td>51</td>
<td>31.8</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100</td>
</tr>
</tbody>
</table>

The above findings indicate that majority 109(68.2%) of all respondents said that were aware of reforms undertaken in the NMB in solving money laundering problem as opposing to 51(31.8%) of the respondents who were not aware with the reform. This implies that most of the NMB staff were informed on the reforms took by the bank in combating money laundering problem. This is justified by establishment of National Committee in 2002 in Tanzania in collaboration with the member of The Eastern and Southern Africa 'Anti-Money' Laundering Group (ESAAMLG). The responsibilities of the National Committee which include formulating, assessing and improving the effectiveness of policies and measures to combat money laundering, advising the Government on legislative, regulatory and policy reforms other issues pertaining to AML.

Considering banking services, banks represent a natural and logical vehicle for launderers. Graham, Bell & Elliott (2003) stated that cash deposits, basic banking services and wire transfer facilities are the core means of money laundering. The
wealthier launderers will look for specialist private bank services and investment houses that offer wealth management services.

The respondents were also asked to indicate whether the money laundering problem has been declined after the introduction of money laundering law and the figure 4.3 illustrates the study findings from the respondents.

Figure 4.3: Level of money laundering problem

The above findings indicate that majority 38% said that adoption of money laundering law has reduced to large extent the problem of money laundering in the bank, about 24% said has reduced the problem whereas 20% said somehow problem has reduced and only 18% said there was no change. This shows clearly that adoption of money laundering law had positive impact in combating money laundering problem. This is in line with other Studies done by Taimur (2007) and Alberto and Florencio (2005) inter alia acknowledge that sound money laundering curbing policy has proved having great impact in many financial institutions after September 11 attack. Despite the challenges bank face in dully application of the policy they still encourage financial institutions to enact a proper legislation and comply with KYC requirements. They pointed out that financial institution they have
realized the use of KYC and its impact noted as incidences of their systems to be used by money laundering dropped considerably.

Through documentary review the researcher found the number of cases on money laundering problem in NMB were on decreasing year after year.

**Table 4.4: Number of money laundering cases reported in NMB in 4 sampled branches**

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>33</td>
<td>39.7</td>
</tr>
<tr>
<td>2009</td>
<td>19</td>
<td>22.8</td>
</tr>
<tr>
<td>2010</td>
<td>12</td>
<td>14.4</td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>13.2</td>
</tr>
<tr>
<td>2012</td>
<td>08</td>
<td>9.6</td>
</tr>
<tr>
<td>Total</td>
<td>83</td>
<td>100</td>
</tr>
</tbody>
</table>

The above findings indicate that about 33(39.7%) cases of money laundering problem was reported in sampled NMB branches in 2008 and in 2009 the cases reported was decreased to 19(22.8%) and reached only 12(14.4%) cases in 2010. In 2011 and 2012 money laundering cases reported were 11(13.2%) and 8(9.6%) respectively. This show that the number of money laundering cases reported was at decreasing. This is in line with Studies done by Taimur (2007) and Alberto and Florencio (2005) inter alia acknowledge that sound Know Your Customer proved having great impact in many financial institutions after September 11 attack. Despite the challenges bank face in dully application of the policy they still encourage financial institutions to enact a proper legislation and comply with money laundering decrease requirements. They pointed out that financial institution they have realized the use of money laundering laws such as KYC and its impact noted as incidences of their systems to be used by money laundering dropped considerably.
The study was done under survey of 80 states excluding Tanzania and was done in financial institutions but the current study will base on commercial banks in Tanzania under case study to uncover the applicability of money laundering curbing laws such as Know Your Customer and its role in controlling money laundering activities.

4.4. The strategies employed in curbing money laundering problem
In determining this study objective, the 100 respondents were asked whether NMB had any strategies for curbing money laundering strategies. The study revealed that of 100 respondents majority 67(67%) said NMB had employed several strategies in curbing money laundering problem.

Figure 4.4: Existence of money laundering curbing strategies

The next question respondents were asked to mention the strategies NMB employed in curbing money laundering problem.
Table 4.5. Money laundering curbing strategies

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank use systems for the identification of its customers</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Identification and reporting illegal transactions to financial intelligent unit</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Establishing written document to detect and prevent suspicious transactions</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Conducting training</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Establishing post code to assess residential and business area</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Updating information to all existing customers</td>
<td>56</td>
<td>56</td>
</tr>
</tbody>
</table>

The data in the table above shows that majority 56% of the respondents said that NMB had updated information to all existing customers as one of the strategies to curb money laundering problem. Next, 48% said training on money laundering problem has been conducted to all bank staffs in NMB. Whereas 45% of the respondents revealed that NMB use systems for the identification of its customers. This implies that NMB has adopted international money laundering curbing strategies as suggested by Financial Action Task Force (FATF 40 Recommendations October 2003) (incorporating all subsequent amendments until October 2004). In recent years, the Financial Action Task Force (FATF) has noted increasingly sophisticated combinations of techniques, such as the increased use of legal persons to disguise the true ownership and control of illegal proceeds, and an increased use of professionals to provide advice and assistance in laundering criminal funds. These factors, combined with the experience gained through the FATF’s Non-Cooperative Countries and Territories process, and a number of national and international initiatives, led the FATF to review and revise the Forty Recommendations into a new comprehensive framework for combating money laundering and terrorist financing. The FATF now calls upon all countries to take the necessary steps to bring their national systems for combating money laundering and terrorist financing into compliance with the new FATF Recommendations, and to effectively implement these measures.
The respondents was further asked to rate at which level the introduction of strategies had improved control money laundering problem in NMB as illustrated in figure 4.5 below.

**Figure 4.5: Level at which money laundering strategies control the problem**

![Bar chart showing levels of control for money laundering strategies](chart.png)

The above finding indicates that of 100 respondents 44 said the level of which money laundering strategies control the problem is between 25-45 which is equivalent to 44%. 30 out of 100 respondents said that it is between 1-25% and this is equivalent to 30% compared to 21out of 100 respondents who said that it is between 45-75 and only 9 out of 100 who said it is above 75. The findings reflect that the difference in the perception of the respondents as to the level at which the money laundering strategy control the problem. This is in line with Shawgat (2011) who realized that measures to combat money become the focus of any country due to complexity of the problem itself. He concluded that developing countries still have weak financial regime and have inadequate regulatory bodies hence call for states to enforce anti Money laundering initiatives. This study was done in Bangladesh and reveal that Money Laundering still a problem despite initiatives done by government still there is lack of enforcement of these laws.
Studies done by Taimur (2007) and Alberto and Florencio (2005) inter alia acknowledge that sound money laundering laws such as Know Your Customer proved having great impact in many financial institutions after September 11 attack. Despite the challenges bank face in dully application of the policy they still encourage financial institutions to enact a proper legislation and comply with KYC requirements. They pointed out that financial institution they have realized the use of KYC and its impact noted as incidences of their systems to be used by money laundering dropped considerably.

The respondents were also asked on the information as to why money laundering strategy may not effectively be engaged in control customers’ behavior on money laundering in NMB and the table indicates the findings on this.

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of experts</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Weak strategy making forum for banks</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Lack of technology</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Corruption</td>
<td>18</td>
<td>18</td>
</tr>
</tbody>
</table>

The above findings indicate that 34% of the respondents said that lack of experts affects the effective of banks in controlling money laundering problem compared to 26% who said weak strategy making forum for banks and 12% attributed the problem to the lack of technology and only 18% said corruption. These findings indicate that in order for the money laundering strategies to be effective, NMB need to have enough experts on money laundering behavior as well as enough modern technology. Combating money laundering is a dynamic process. The criminals who launder money are continuously seeking new ways to achieve their illegal ends. Although various guidelines and legal acts formulated around the globe, including Bangladesh, criminals are also trying to protect themselves from the regulatory system by innovative criminal activities to misuse the system for their purpose.
Moreover, with financial innovation which usually occurred to avoid law and take the benefit of technological advancement (Mishkin, 2004), are now used by the launderer to conceal their income from the illegal source. Some of the challenges faced by the financial institutions in combating money laundering are discussed below.

4.5. Examine the constraints in combating money laundering problem
In determining this study objective, the respondents were asked to indicate whether there were any constraints NMB faced in combating money laundering problem as indicated in figure below.

Figure 4.6. Existence of constraints in curbing money laundering

The data above shows that majority 63% of the respondents thought NMB faced several constraints in curbing money laundering problem whereas 37% said NMB did not face any constraints. Combating money laundering is a dynamic process. The criminals who launder money are continuously seeking new ways to achieve their illegal ends. Although various guidelines and legal acts formulated around the globe, including Bangladesh, criminals are also trying to protect themselves from the regulatory system by innovative criminal activities to misuse the system for their purpose. Moreover, with financial innovation which usually occurred to avoid law and take the benefit of technological advancement (Mishkin, 2004), are now used by
the launderer to conceal their income from the illegal source. Some of the challenges faced by the financial institutions in combating money laundering are discussed below.

After discovering that NMB faced numerous constraints in combating money laundering problem, the respondents were asked to indicate challenges NMB faced in combating money laundering problem.

**Table 4.7: Challenges facing bank in curbing money laundering problem**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verification of foreign documents</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Client want to hide their confidentiality</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>The KYC has limitation of time</td>
<td>36</td>
<td>36</td>
</tr>
<tr>
<td>Customers competent ion</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Lack of modern technology</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Lack of money laundering experts</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

The above findings indicate that of 100 respondents about 56% said they face the practical problems when it comes to the verification of the documents of foreigners. Whereas 45% said some customers like to hide their confidentiality. This implies that, some clients do not like to disclose all information to third part they tend to hide some of the information so I become so hard if you really need to extract or verify some of the information especially national figure, foreigners and big clients. The respondent 9(45%) reported that customer do not disclose proper information and thus it may lead to money fraud.

About 36% said that KYC has limitation of time so we all do waiting the deadline also there is the issue of resources, if the issue to be dealt thoroughly the bank must have specific staff that will be responsible for handling verification. To verify all documents is a tedious thing but compliance officer needed to each branch to verify
all the documents that we can, and we assume others to be true as well. You know, we are business organization and we have to do business as well.

Another challenge is based on the fact that currently in Tanzania have many banks and customers competition as each bank is trying to attract customers therefore some are strictly in documentation and some are not so strict on the same. If you become so strict you may even face problem to senior manager if it touches account that counted to be among the significant in the branch or bank therefore staffs tends to take caution when doing verification of a client’s documents and sometimes not as thorough as it is expected. The respondent 4(20%) reported that stiff competition is a challenge facing the bank on attracting foreign customers.

Interviews with manager revealed that it was hard to know the intention of the person who wishes to open a bank account. On the first look the said client become so honest and mostly an ordinary person therefore it is very had to take serious action and those with bad intention they tend to be so nice and kind during account opening and many times they tend to be so friendly and tends to give tokens to staff to make things move. This finding is in line with Research data (2013). Weak legal system and political dishonesty remains an important issue in developing countries to combat money laundering. By using laundered money criminals try to convince the weak regulatory administration of the developing countries. It is not always easy for the developing countries financial institutions to check and take action against all the fictitious transactions, if they are not supported by the regulatory authorities (legal system, central bank and govt. administrations). Therefore, even though rules and laws are exists, challenges remains to implement those rules in practice by the financial institutions in such countries.

4.6. Sustainable solutions to money laundering problem in Tanzania
The respondents were asked to give their views on what should be done to have sustainable solutions to money laundering problem in Tanzania. In responding to this question, 46(46%) the respondents cited various sustainable solution to money
laundering problem in Tanzania. They mentioned solutions ranging from criminalize money laundering and enact laws to confiscate proceeds of crime, maintain rules for customer identification and record-keeping in financial institutions, and pay special attention to new technologies favouring anonymity, require reporting of suspicious transactions to authorities and make the preconditions necessary to contribute to effective international cooperation at all levels. Table 4.8 summarizes the study findings.

**Table 4.8: Sustainable solutions to money laundering problem in Tanzania**

<table>
<thead>
<tr>
<th>Solutions</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criminalize money laundering and enact laws to confiscate proceeds of crime</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Maintain rules for customer identification and record-keeping in financial institutions, and pay special attention to new technologies favouring anonymity</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Require reporting of suspicious transactions to authorities</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Keep adequate systems for control and supervision of financial institutions</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Make the preconditions necessary to contribute to effective international cooperation at all levels</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Improve record keeping</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Interview with NMB money laundering expert revealed that customer identification rules intend to prohibit anonymous customer relations. He said,….the purpose of record-keeping is to make transaction information available to authorities for backtracking in relation to investigations…A piece of information might not be relevant to law enforcement at the time of registration, but if prosecution attached to a person linked to the transaction is initiated later, this information can be crucial, thus transaction records are required to be kept for five years.
Above solutions are somehow in line with global efforts to combat money laundering problem. The strategy has been aimed at depriving them of the means to act and gain knowledge of how their financial networks and methods work in order to prevent any future operations.

Recommendations mentioned in table 4.8 above are intended to provide countermeasures against money laundering and encompass the criminal justice system, law enforcement, the financial system and its regulators, together with international cooperation. They also set out principles and minimum standards for action.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1. Introduction
The purpose of this study was to the assessment of constrains facing banking industry initiatives in controlling money laundering: a case of the NMB. This chapter, therefore, presents the summary of findings of the study and makes specific recommendations based on the findings of the study. The study also gives suggestions for further research.

5.2. Summary of the findings
Money laundering reforms, among others, were critical strategies towards combating money laundering problem in NMB. In this regard, the researcher aimed at establishing money laundering regulation reforms and their impact on combating money laundering problem in Tanzania.

The study revealed that majority of NMB workers were aware with existence of money laundering problem in Tanzania. The findings also revealed that the reforms brought changes on money laundering which had also an impact on decline the money laundering reported cases. The implementation of money laundering policy reform components enhanced the efficient and effective curbing money laundering problem. For instance, the respondents mentioned a number of reforms undertaken to reduce money laundering problem. Such strategies included: the development of KYC policy; training and capacity building for money laundering personnel; that majority 56% of the respondents said that NMB had updated information to all existing customers as one of the strategies to curb money laundering problem. Next, 48% said training on money laundering problem has been conducted to all bank staffs in NMB. Whereas 45% of the respondents revealed that NMB use systems for the identification of its customers.
The study findings revealed that level of which money laundering strategies control the problem is between 25-45 which is equivalent to 44%. 30 out of 100 respondents said that it is between 1-25% and this is equivalent to 30% compared to 21 out of 100 respondents who said that it is between 45-75 and only 9 out of 100 who said it is above 75.

The findings also indicate that 34% of the respondents said that lack of experts affects the effective of banks in controlling money laundering problem compared to 26% who said weak strategy making forum for banks and 12% attributed the problem to the lack of technology and only 18% said corruption. These findings indicate that in order for the money laundering strategies to be effective, NMB need to have enough experts on money laundering behavior as well as enough modern technology.

The above findings indicate that of 100 respondents about 56% said they face the practical problems when it comes to the verification of the documents of foreigners. Whereas 45% said some customers like to hide their confidentiality. This implies that, some clients do not like to disclose all information to third part they tend to hide some of the information so I become so hard if you really need to extract or verify some of the information especially national figure, foreigners and big clients. The respondent 9(45%) reported that customer do not disclose proper information and thus it may lead to money fraud.

About 36% said that KYC has limitation of time so we all do waiting the deadline also there is the issue of resources, if the issue to be dealt thoroughly the bank must have specific staff that will be responsible for handling verification. To verify all documents is a tedious thing but compliance officer needed to each branch to verify all the documents that we can, and we assume others to be true as well.
5.3. Conclusion
A number of conclusions were drawn from the study findings as presented in Chapter four. These conclusions are presented below.

- Weak legal system remains an important issue in Tanzania banks to combat money laundering. By using laundered money criminals try to convince the weak regulatory administration of the banks. It is not always easy for the Tanzanian banks to check and take action against all the fictitious transactions, if they are not supported by the regulatory authorities (legal system, central bank and govt. administrations). Therefore, even though rules and laws are exists, challenges remains to implement those rules in practice by the financial institutions in Tanzania.

- One of the very import challenges now days facing by the Tanzania banks industry is the costs involved in implementing anti-money laundering (AML) mechanism. With the financial globalization financial institutions are investing in the emerging and developing economies in searching for profit. Free flow of fund Tanzania has given opportunity for the launderers to transfer funds from one region to the country. In most cases they use shell companies to perform their intentions. Although it is possible for Tanzanians banks to check such activities, however it is very costly for Tanzania economy and smaller banking firms. Therefore, it is an important challenge for the Tanzania to adopt global anti-money laundering polices.

- Money laundering challenges exist in Tanzania and commercial banks should employ more strategies to curb the problem. Money laundering laws should be strengthening to curb the problem.

- Financial intelligent Unit and commercial Banks should further strengthen the fight against the money launderer and show them that there is no place to hide.

- Finally, Commercial banks are urged to develop programs against money laundering that minimally would see the development of policies and procedures and the involvement of management in the process. Ongoing employee, training programs and audit checks of the system are also recommended.
5.4. Recommendations

- It is recommended that, money laundering curbing strategies should not begin and end when client enters the bank. Banks has to develop personal relationships with their clients by visiting the client’s homes and arranging their financial affairs. As the result customer will feel loyal but also bank will be able to know more of that clients, this should be done in particular by Relationship managers (RMs). This will help the bank minimize warning signs and can stand as controls designed to detect or prevent money laundering.

- For better detection and control of money laundering in Tanzania, the country’s infrastructure must be developed. The first step would be to enforce the AML Act. Commercial Banks in Tanzania should be advised to build a strong and comprehensive system that can support an effective, multi-disciplined approach for combating money laundering.

- Tanzania Government through FIU should guide and monitor centralized structures is well followed up by Commercial Bank to report suspicious transactions.

- Tanzania Financial intelligent Unit should be autonomous and have adequate resources to be able to function well. The main controlling body against money laundering in Tanzania is Financial Intelligent Unit (FIU) that works so close with Central bank of Tanzania. It controls the AML mechanisms in banks, and conducts on-premise controls and various trainings for them. Secondly, the FIU runs the Tanzanian Anti-Money Laundering Monitoring Analysis and is responsible for collecting, analyzing and reporting large-value and suspicious transactions.

- Commercial Banks need to facilitate detection and monitoring of cash transactions, should monitor the freedom of capital movements by setting a threshold, to verification, administrative monitoring, declaration or record keeping requirements.
• Developing national anti money Laundering database, keeping safely information submitted by financial institutions regarding large value trading and suspicious trading, and should be shared amongst commercial banks and financial institutions at large.

• Commercial banks must to develop programs against money laundering that minimally would see the development of policies and procedures and the involvement of management in the process. Ongoing employee, training programs and audit checks of the system are also recommended.

• This paper should be seen as a first start/attempt in order to shed some light on the grey area of money laundering or the financial means of organized crime and to provide some better empirical base. Banks must change their culture of know-your-customer due diligence, and not treat it solely.

• Banks should adopt policies so that if they cannot identify the ultimate beneficial owner of the funds and beneficiary if the customer is a trust, and if they cannot identify a natural person (not a legal entity) who does not pose a risk, they must not accept the customer as a client.

• Anti-money laundering laws must be absolutely explicit, and consistent across different jurisdictions, that banks must identify the natural person behind the funds, investigate the source of funds, and refuse the customer if they present a risk. Regulators are in the front line of ensuring that this is enforced, and should treat the prevention of corrupt money flows as a priority.

• On the side of penalties established in the Money Laundering Act 2006 particularly for those who are involved in money laundering, it reveal the government’s intention to ensure that criminals through our financial institutions do not find a way in Tanzania and further to ensure the safety of the Tanzania’s financial system from abuse by money launderers.
5.5 Area for Further Study

The study tried to cover a small part of challenges facing banks in curbing money laundering problem in Tanzania, however due to some limitation like time shortage and resources restriction only one bank was used as a case study, therefore another study is recommended to cover wide area and in private sectors.
REFERENCE


The existing official document on money laundering is the Bank of Tanzania ‘Circular on regulating the conduct of financial institutions’. 2007 and 2000

Eastern and Southern Africa Anti Money Laundering Group from Arusha To Maseru ESAAMLG At Ten 1999-2009


Basel Committee on Banking Supervision 2001, Customer Due Diligence for Banks or Bank for International Settlements, Basel, viewed 30 January 2012,


Speech by the chairman of the Tanzania Bankers Association, Ben Christiaanse at the TBA workshop on combating financial crimes in the banking industry held at the BOT conference centre, Dar es Salaam on 22nd July 2010

Speech by the Chairman of The Tanzania Bankers Association, Mr. Ben Christiaanse, at the TBA Cocktail Held At The Mövenpick Royal Palm Hotel, Dar Es Salaam, On 28th May 2008, viewed 10 April, 2013


Based on testimony by the Financial Crimes Division, Hearing of the Senate Banking, Housing and Urban, Affairs Committee on Financial Instruments Fraud, September 16, 1997.

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Stanford Federal Credit Union Pioneers Online Financial Services." (Press release1995-6-21). Retrieved 05.05.2013
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Appendix 1: QUESTIONNAIRE

TOPIC: The Assessment Of Constrains Facing Banking Industry Initiatives In Controlling Money Laundering

Instructions:
Kindly respond to all the questions in the space provided. Where there are options, please tick those applicable. Should the space provided prove insufficient, please feel free to use additional sheets of paper. Thank you.

Section 1: Personal Information
1. Position: .........................................................................................
2. Department: ......................................................................................
3. Designation ...........................................................................................

Section 2: effectiveness of the law governing money laundering combating
4. How long have you been in this bank department?
..............................................................................................................
5. Are you aware of any reforms which have been undertaken to overcome money laundering problem in this bank?
..............................................................................................................
   Yes [ ]
   No [ ]

6. Looking back to the period before and after the introduction of above mentioned law would you say the money laundering problem has decreased?
   Yes [ ]
   No [ ]
7. What effect has this had on bank effort in curbing money laundering problem? (Explain)

8. Has this resulted in any improvement in reducing money laundering problem? (Explain)

Section 3

9. The strategies employed in curbing money laundering problem

<table>
<thead>
<tr>
<th>Does your bank implemented systems for the identification of its customers, including customer information in the case of recorded transactions, account opening, etc. (for example; name, nationality, street address, telephone number, occupation, etc)?</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does your Bank have policies or practices for the identification and reporting of transactions that are required to be reported to Financial Intelligent Unit (FIU)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has your Institution developed written policies documenting the processes that they have in place to detect and prevent suspicious transactions that has been approved by senior management?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your bank conduct training regarding Know Your Customer and Money Laundering?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your bank have Know Your Customer policy consistent with industry best practices?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your bank have Money Laundering policy?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your Bank have procedures to identify transactions to avoid processing suspicious transaction?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your Institution provide AML training to employees about KYC, Money laundering and importance of indentifying and reporting suspicious transaction?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does your Bank system ever used as intermediary for money laundering activities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Did you attend any Ant Money laundering training conducted within or outside the bank?  

### Section 4

10. **How do you rate ability of the department with regard to:**

<table>
<thead>
<tr>
<th>Services</th>
<th>Excellent</th>
<th>Good</th>
<th>Fair</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying money laundering problem</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detecting money laundering in early stage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taking measure against customers embarked on money laundering activities</td>
<td>Excellent</td>
<td>Good</td>
<td>Fair</td>
<td>Poor</td>
</tr>
<tr>
<td>Eliminating money laundering problem</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17. Would you like to make any additional comments on the constraints for curbing money laundering problem? Please use the space provided.

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

Thank you very much for taking the time answering this questionnaire.
Appendix 2 Interview
These questions meant to help in the gathering of information on constraints for curbing money laundering in banks in Tanzania.

1) How do you understand money laundering problem?
2) What is the situation of your bank in money laundering problem?
3) How many times have you noticed the problem?
4) Please indicate if your Bank has been proactive in measures of Combating money laundering problem?
5) Kindly mention any measures in place to combat the problem?.
6) Given your knowledge in money laundering, mention why this problem is still increasing?
7) What challenges do bank face in the process of controlling money Laundering, Mention at least three reasons
8) What challenge do you encounter in the process of collecting/updating customer details? Mention at least three
9) In your opinion, what is the best way of solving the money laundering problem?