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1. INTRODUCTION AND OVERVIEW.

- 1.1 This inaugural report of the Financial Intelligence Inspectorate and Evaluation Unit [FIIIE] (formerly The Bank Use Promotion and Suppression of Money Laundering Unit [BUP & SMLU]) will in some instances transcend the mandatory six months period as dictated by the provisions of Section 8 of the Bank Use Promotion and Suppression of Money Laundering Act [Cap 24:24]. This is so as to fully incorporate all the major transformation highlights the Unit went through and the achievements accomplished from inception to date.
- 1.2 (BUP & SMLU) became fully constituted in terms of the Act of the same name in September 2004. BUP& SMLU was the successor to the Banking Transactions Promotion Unit (BTPU) which had been established in August 2003 after promulgation of Statutory Instrument 171 under the Presidential Powers (Temporary Measures) to operate for a period of six months ending February 2004.
- 1.3 It would be recalled that the BTPU was created at a time when there was a wide range of severe macro economic challenges that had negative effects on the smooth running of the economy.
- 1.4 Of significance amongst these challenges were the unpredictable upward changes in money demand which ultimately resulted in cash shortages in 2003, the prudential risks to the soundness of financial institutions and financial systems which led to the collapse of some banking institutions, the increased volatility of exchange rates due to the emergence of parallel market trading as well as hoarding of basic commodities for speculative purposes.
- 1.5 The above scenario provided fertile ground for money laundering and its attendant undesirable effects of exposing the country to financial crisis and macroeconomic instability. Indeed some unscrupulous members of the society had already begun to exploit these anomalies by engaging in money laundering activities which included manipulating international funds transfer from Zimbabweans in the Diaspora through non-banking intermediaries and diversion of Zimbabwe dollar cash from financial intermediaries for the purpose of funding the illegal foreign exchange purchases.
- 1.6 Indiscipline amongst captains of industry and commerce manifested itself through malpractices such as the over-invoicing of imports and under-invoicing of exports, as well as non- acquittal of CD1 forms.
- 1.7 Some culprits of these malpractices have since been brought to book whilst others skipped borders. Those that left the country are still to face the full wrath of the law for their economic and financial crimes.
- 1.8 The magnitude of economic and financial crimes that were committed by various individuals and corporates across the board coupled with the need to combat money laundering activities in tandem with international initiatives required that new laws be promulgated in order to effectively deal with the problems.

- 1.9 Accordingly, the Bank Use Promotion and Money Laundering Act (Cap 24:24) was promulgated in September 2004. The Act led to the establishment of the Bank Use Promotion and Suppression of Money Laundering Unit within the Reserve Bank of Zimbabwe. The operational name of the Unit was later changed to Financial Intelligence Inspectorate and Evaluation (FIIE) in May 2005, in line with international standards and norms.

2. FUNCTIONS OF THE FIIE

- 2.1 The establishment of the FIIE, (understood as the Financial Intelligence Unit (FIU) in other jurisdictions), within the Reserve Bank of Zimbabwe signaled the determination of the country to effectively identify and combat money laundering, financing of terrorism and other economic crimes.

- 2.2 **In tandem with international initiatives to combat money laundering and terrorist financing, the Unit was also established in terms of Recommendation 26 of the Financial Action Task Force. Recommendation 26 requires that “Countries should establish a FIU that serves as a national centre for receiving (and as permitted, requesting), analysis and dissemination of (Suspicious Transaction Reports) STRs and other information regarding potential money laundering and terrorist financing. The FIU should have access, directly or indirectly on a timely basis, to the financial, administrative and law enforcement information that it requires to properly undertake its functions including analysis of STR”**

- 2.3 **Section 4 of the Bank Use Promotion and Suppression of Money Laundering Act [Chap 24:24] outlines the functions of the Unit as follows-**

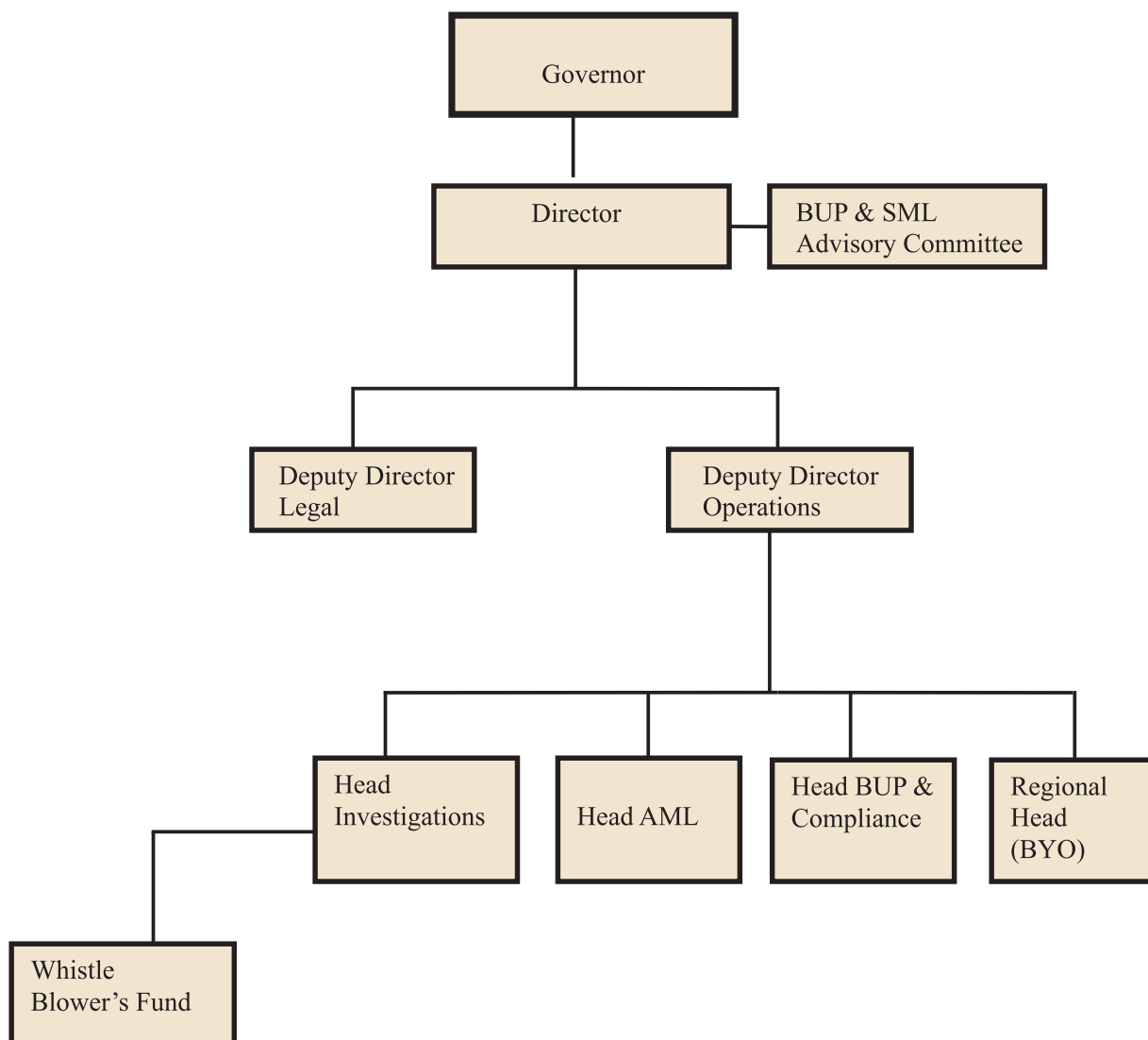
- **To promote the use by the public of financial institutions for the purpose of mediating, facilitating or obviating cash transactions;**
- **To receive reports of suspicious transactions issued by designated institutions or employees thereof in terms of section *twenty six or twenty eight*;**
- **To consider the reports referred to above, and if there are any reasonable grounds to suspect that the transactions are suspicious, transmit the reports to the appropriate law enforcement agencies;**
- **To compile statistics and records and gather and disseminate information within Zimbabwe or elsewhere on matters relating to the Unit’s functions;**
- **To issue guidelines or directions to financial institutions on matters relating to its functions;**
- **To monitor and enforce compliance with this Act by traders, parastatals, designated institutions and other persons;**

- To create training facilities and provide training to designated institutions on matters relating to the Unit’s functions and;
- To perform such other functions as may be assigned to it by or under this Act or as the Governor of the Reserve Bank of Zimbabwe may assign to it by direction in writing.

2.4 The functions of the Unit, to a large extent, are consistent with the internationally shared common definition of FIUs that refers to their function as being “a national centre for the collection, analysis, and dissemination of information regarding money laundering and the financing of terrorism.”

3. STRUCTURE OF THE UNIT

3.1 The structure of the Unit, which is consistent with its statutory functions, international standards and norms, was formally approved by the Governor of the Reserve Bank of Zimbabwe in March 2005. It is important to note however, that although the structure was formalized in March 2005, it had been operational since the inception of the BTPU in August 2003. The approved structure is as follows:-



3.2. Staffing Levels

The Unit has a total staff compliment of 48. Most staff members were recruited from strategic financial and law enforcement sectors so as to tap from the diverse range of skills and expertise that would enable the Unit to discharge its functions efficiently and effectively.

4. BUP & SML Advisory Committee.

As required in terms of Section 9 of the BUP & SML Act, an Advisory Committee was constituted subject to confirmation by the Minister of Finance.

5. REVIEW OF OPERATIONS

5.1 The Unit's operations during the period under review were to a large extent guided by the statutory provisions of the Bank Use Promotion and suppression of Money Laundering Act [Cap 24:24] as well as the maiden Monetary Policy Statement of 18 December 2003 and the subsequent quarterly monetary policy reviews and pronouncements.

5.2 To this end, the FIIE's various Sections as illustrated in the structure above carried out specific tasks as outlined below:

5.2.1 Bank Use Promotion and Compliance Section

5.2.1.i The statutory requirements of this Section are covered under Sections 10 –22 of the Bank Use Promotion and Suppression of Money Laundering Act.

5.2.1.ii. During the period under review, the Unit undertook an exercise to establish a database of all institutions covered under the above-mentioned Sections of the Act. The purpose of creating a database was to enable ease of planning and execution of compliance inspections on the designated institutions.

5.2.1.iii. This exercise is still ongoing given the large numbers of institutions to be incorporated into the database. Inspections have also been carried out on selected institutions in order to establish compliance with the requirements of the Act. Results show that most of the large companies are complying with the requirements of the Act and are now taking advantage of the Zimbabwe Electronic Transfer and Settlement System (ZETSS) facility to effect large funds transfers. Efforts are under way to ensure compliance by small business units.

- 5.2.1.iv In order to come up with appropriate strategies of enhancing banking convenience to the public in the wake of bank closures that characterized the financial sector in the last two years, the Unit undertook a research exercise to establish the adequacy of banking delivery systems in the country.
- 5.2.1.v The results of the exercise revealed that notwithstanding closures and placement of some banks under curatorship, major cities, towns and service centres throughout the country were generally adequately serviced by either commercial banks, building societies or the People's Own Savings Bank (POSB).
- 5.2.1.vi The research, however, revealed that Kariba, one of the country's leading tourist destinations, did not have an operating commercial bank following the placement under curatorship of the bank which used to operate in the resort town. Efforts are underway by a leading commercial bank to provide a Mobile Unit service as an interim measure.
- 5.2.1.vii This is a major concern as the absence of a commercial bank in a tourist resort, may lead to parallel market trading temptations and other forms of money laundering. Consultations are also underway with other banks that are interested in offering banking services in the area to establish their presence in the near future.
- 5.2.1.viii During the period under review, the section also investigated business malpractices which were being perpetrated by some Money Transfer Agencies, Banking Institutions and Asset Management Companies. As a result of these investigations, some of the institutions have had their operating licenses revoked, whilst some have been prosecuted in courts of law.
- 5.2.1.ix In order to harmonise and standardise fees, commissions and other charges levied by banks on their customers, the FIIE undertook an exercise to establish the various charges currently being applied by all the financial institutions. The objective of the exercise is to ultimately come up with policy recommendations on appropriate financial charges to be imposed by financial institutions for their products and services as stipulated in Sections 16–17 of the Act.
- 5.2.1.x The recommendations from the exercise will be forwarded to the appropriate authorities for consideration.
- 5.2.1.xi In tandem with the requirements of Section 11.4 (e) of the 2005 Post Elections and Drought Mitigating Monetary Policy Framework, the Unit has since send out directives to financial institutions to report to the Reserve Bank of Zimbabwe all cash withdrawals of above Z\$50 million per individual per day and withdrawals and inter-bank transfers of above Z\$500 million for corporate entities. Weekly reports are being submitted to the Unit for analysis and detection of any suspicious activities. There has been, as a result, an apparent decline in cash withdrawals

above these thresholds albeit; some clients are splitting their withdrawals to avoid detection.

- 5.2.1.xii Following the issuance of the Anti Money Laundering Guidelines to some designated institutions, the Section has already drafted compliance inspection guidelines for use by inspectors when they go out to examine the degree and level of compliance with the guidelines and other regulations. The compliance examination guidelines will continuously be reviewed in order to cope with any new challenges that may arise in the area of money laundering and terrorist financing.

5.2.2 Investigations Section

- 5.2.2.i In collaboration with other law enforcement agents like the ZRP, ZIMRA, NECI and Immigration Department, the Investigation Section of the FIIE has carried out extensive investigations particularly in cases involving financial and economic crimes in all sectors of the economy.

- 5.2.2.ii. Major cases investigated included the following:-

- **externalisation of export proceeds,**
- **transfer pricing for both imports and exports,**
- **fraudulent compilation of export documents by bogus clearing agents.**
- **misuse of foreign currency allocated at the Currency Exchange Auction,**
- **non surrender of foreign currency charged to foreign visitors by the hospitality industry,**
- **abuses and corruption in the fuel industry,**
- **malpractices in the horticultural industry,**
- **parallel market trading and leakages in gold and other precious minerals and metals,**
- **malpractices in the safari and travel agents sectors,**
- **malpractices in the cross border transport sector.**
- **malpractices in land allocation,**
- **falsification of quality and value of exports,**
- **parallel market trading of foreign currency and commodities by both individuals and companies.**

- 5.2.2.iii. The section also administers the Whistle Blowers Fund whereby members of the public are encouraged to report cases of economic or financial crimes to the Unit. As at the end of June 2005, the Unit had received a total of 722 reported cases of which 409 cases had been investigated and handed over for prosecution by the courts. A total of US\$1,6 million, GBP1,8 million and BWP200 has been recovered or repatriated since the establishment of FIIE. In addition, a total of Z\$750.0 million was paid out to whistle blowers who had provided information that led to successful prosecution and recovery of crime proceeds.
- 5.2.2.iv Normally, such informers are paid 10% of what is recovered. The Governor has the discretion, in exceptional cases, to authorise payment of a reward to an informer even though there may be no recovery of proceeds. Such payment will be dependent on the critical nature of the information provided, particularly that which leads to major revelations of fraudulent and crippling economic activities.
- 5.2.2.v. The work of the Investigations Section could be made much easier if the Inspectors were to be vested with arresting powers. However, like other similar Units the world over, the Unit will remain vested with the ordinary powers of citizens arrest as provided for by the Criminal Procedure and Evidence Act, but will continue to work in close cooperation with other law enforcement agents like ZRP, ZIMRA, NECI and the AG's Office in reigning on perpetrators of economic and financial crimes.

5.2.3 Anti Money Laundering

5.2.3.1. Anti Money Laundering Initiatives

- 5.2.3.1.i Prior to the promulgation of BUP & SML Act in September 2004, the Reserve Bank of Zimbabwe through the Bank Licensing, Supervision and Surveillance Division, had already taken initiatives aimed at combating money laundering through guidelines issued in 2001.
- 5.2.3.1.ii Accordingly, commercial banks, merchant banks and building societies have been reporting suspicious transactions (STRs) since 2001 and were formally designated following the promulgation of the Bank Use Promotion and Suppression of Money Laundering Act September 2004.
- 5.2.3.1.iii The promulgation of the Bank Use Promotion and Suppression of Money Laundering Act (Chap 24:24) enabled the Unit to expand the range of designated institutions from financial institutions to incorporate Law Firms, Accounting Firms, Insurance Companies, Asset Management Companies, Casinos and Real Estate Agencies.

5.2.3.2 Designated Institutions

- 5.2.3.2.i To ensure that designated institutions are not used as conduits for money laundering activities and parallel market dealings, the FIIE issued directives to these institutions to appoint Anti-Money Laundering Reporting Officers (AMRLO) as well as ensuring that they have adequate Know Your Customer (KYC) guidelines, systems and controls in place to detect and report suspicious transactions.
- 5.2.3.2.ii As at June 30 2005, 26 banks, 10 asset management or unit trusts, 2 estate agents, 5 accounting firms and 2 legal practitioners had appointed Anti-Money Laundering Reporting Officers, whilst other designated institutions were in the process of reorganising their structures in order to create AMLRO positions.
- 5.2.3.2.iii During the period under review the AML Section received a total of 41 suspicious transaction reports mostly from financial institutions. The cases that were dealt with ranged from externalisation to parallel market dealings in foreign currency by both individuals and corporate companies. These STRs were investigated and appropriate measures instituted to prosecute the perpetrators.

5.2.3.3 Capacity Building

- 5.2.3.3.i As at June 2005 the Unit had a full staff compliment of 48. A number of the Unit's officers have attended various local, regional and international courses and workshops on money laundering and terrorist financing.
- 5.2.3.3.ii These programmes were carefully selected in order to ensure that they equipped the officers with the relevant skills and expertise that would enable them to discharge their duties efficiently and effectively.
- 5.2.3.3.iii In addition, the Unit embarked on compiling a training manual to be used in the training of Anti-Money Laundering Officers of all designated institutions. The training of Anti Money Laundering Officers will be an on-going exercise in order to keep them abreast with international developments and best practice. This will be through both internal and external training programmes.
- 5.2.3.3.iv During the period under review, the Institute of Security Studies (ISS) based in South Africa visited the Unit to assist with a training needs analysis as well as to offer training to staff. This engagement was fruitful as it resulted in an agreement being reached between the FIIE and ISS for ISS to conduct a two week training programme on anti-money laundering and terrorist financing for staff. The course was held from 26 September to 7 October 2005.

5.2.3.3.v The United Nations Mentor to Esaamlg has also made an undertaking to facilitate technical assistance to the Unit and other stakeholders in the form of computer based training. The training programmes will be pursued vigorously in order to keep the Unit's staff abreast with new challenges arising from money laundering and terrorist financing developments.

5.2.3.4 **Information Technology**

5.2.3.4.i The Unit is cognisant of the value of technology to real time intelligence based investigations and is in the process of automating the systems by which it receives, analyses and disseminates the vital intelligence derived from the analysis of financial transactions.

5.2.3.4.ii The objective is to have a stand alone IT infrastructure that meets the requirements of the Unit in terms of;

- **legislation governing our operations**
- **technical processes i.e. financial intelligence and investigative analysis as well as database management.**
- **text retrieval system to enhance the Unit's capability for data mining and development of statistical models for strategic analysis profiling.**
- **online reporting of suspicious transactions.**
- **dial on facility into the banking institutions.**

5.2.3.4.iii In view of the FIEs intention to join the Egmont Group, it would be desirable for its IT infrastructure to be able to be connected to the Egmont Secure Web (ESW) which is the backbone of information exchange between FIUs worldwide.

5.2.4 **Bulawayo Office**

5.2.4.1 Cognisant of the need to timeously respond to cases of financial and economic crimes in the Southern Region of the country, it was found necessary to establish an Office in Bulawayo. This region covers the busiest border posts of Beitbridge and Plumtree as well as the Victoria Falls and Hwange National Parks which are major tourist attraction centres in Zimbabwe.

5.2.4.2 Temptations of money laundering and parallel market trading in tourist areas are high hence the need to put in place measures to nip those temptations in the bud.

5.2.4.3 The setting up of a regional office commenced in March 2005. Logistical requirements and staff are already in place awaiting final touches on renovations being carried out on the premises that will house the FIE's regional office.

5.2.5 Legal and International Framework

5.2.5.1 Legal Framework

5.2.5.1.i The Republic of Zimbabwe has a number of pieces of legislation designed for combating money laundering and the financing of terrorism, and is currently working on the legislation and relevant structures to meet regional and international best practice. Current pieces of legislation in place to combat money laundering and terrorist financing include;

- **Serious Offences (Confiscation of Profits) Act 1190.**
- **Prevention of Corruption Act.**
- **Criminal Matters (Mutual Assistance Act).**
- **Public Order and Security Act.**
- **Bank Use Promotion and Suppression of Money Laundering Act.**
- **Anti-Corruption and Anti-Monopolies.**

5.2.5.1.ii The Unit is advocating the formal promulgation of an all encompassing Anti-Terrorism Act and a comprehensive Anti-Money Laundering Act. Current provisions against money laundering and terrorism are scattered in varied pieces of legislation. This negates accessibility and frustrates successful prosecution of culprits, hence the need for consolidation. The Attorney-General's office has already been approached for its preliminary views in this regard.

5.2.5.1.iii. Efforts are also at an advanced stage to have BUP & SML Act amended to incorporate issues such as the new name of the Unit, giving inspectors more extensive search powers, and increasing the amounts of money which people can carry on their persons.

5.2.5.2 International Cooperation

5.2.5.2.i The FIIE is an integral member of (Esaamlg) the Eastern and Southern Africa Anti-Money Laundering group. All Sadc states and most East African nation are members. The FIIE has been represented at (Esaamlg) meetings conducted in Mauritius, Mombasa (Kenya) and Tanzania where the implementation of the Financial Action Task Force (FAFT) recommendations was discussed and implementation resolutions adopted.

5.2.5.2.ii. The UN Mentor to (Esaamlg) visited Zimbabwe in the first half of 2005 to assess the country's progress in implementing measures to combat money laundering and terrorist financing. The mentor held various meetings with all stakeholders who included Reserve Bank of Zimbabwe, the Ministry of Finance, the Zimbabwe Republic Police and the Attorney General's office. The UN Mentor expressed satisfaction with the FIIE's preparedness to fight money laundering, particularly the use of the country's own resources to establish the relevant structures. Another

visit for the mutual evaluation of the country's progress in establishing regimes to combat money laundering and terrorist financing is expected in October 2005. This evaluation is critical for the international recognition and acceptance of the FIIE.

- 5.2.5.2.iii. The FIIE has long term plans to join The Egmont Group of Financial Intelligence Units (the Egmont Group) which was created to foster development of FIUs and information exchange. Joining the Egmont Group will enable the FIIE to tap from the Group's technology training and development of financial intelligence capabilities as well as development and implementation of technology based solutions. The Egmont Group has a secure communications system for exchange of financial intelligence amongst member FIUs referred to as the Egmont Secure Web (ESW). This system allows for transmission of critical intelligence between two or more member FIUs via internet or e-mail based protocols maintained with high levels of security and speed.
- 5.2.5.2.iv During the period under review, the FIIE initiated the process of formalizing bilateral relations with sister FIUs. Visits were made to the Egyptian Anti-Money Laundering Unit and the South African Financial Intelligence Centre (FIC). A draft Memorandum of Understanding (MOU) with FIC is already in place and awaiting formal signatures. It is hoped that these bilateral cooperation agreements will lead to more cooperation between the FIUs in rendering each other unfettered access to vital intelligence information.
- 5.2.5.2.v Through the FIIE's initiatives, work is now in progress to have the following conventions ratified;
- **UN Convention for the Suppression of Financing of Terrorism (1999)**
 - **UN Convention against Transnational Organised Crime (2001)**
 - **UN Convention against Crime (2003)**
 - **UN Security Council Resolution 1373.**
- 5.2.5.2.vi Ratification of these Conventions will enhance the country's capacity to effectively work and cooperate with the international community in the fight against money laundering and terrorist financing. In addition, the country will also be able to seek and solicit for support in the areas of capacity building and technical assistance.

6. THE SIX MONTH PERIOD TO DECEMBER 2005.

The Unit will continue to develop itself into a source of expertise on AML/CFT matters. In this regard, during the remainder of the year the Unit will consolidate and strengthen gains already achieved in the areas of:

- **Capacity building (internal/external). In this regard the Unit will be represented at AML/CFT Strategic Development Workshop to be held in Namibia in August 2005, the Senior Task Force Esaamlg Meeting that will be jointly held with the**

Fifth Council of Ministers Meeting in Zambia in mid-August 2005, as well as the training programme to be offered by the ISS of South Africa.

- **Regional and International cooperation**
- **Cooperation with stakeholders**
- **IT infrastructure development**
- **Financial intelligence gathering and analysis**
- **Ratification of UN Conventions**
- **Improving the legal and regulatory frameworks**

The ultimate objective of the FIIE is to develop capacity for swift response in dealing with matters of financial, economic and organised crimes.

7. CONCLUSION

The Unit is indeed indebted to all stakeholders (internal and external) for the tremendous support given notwithstanding the challenging environment characterizing the economy. It is the Unit's cherished desire that such support and cooperation will continue if we are to make visible and meaningful contributions to the fight against money laundering and terrorist financing.

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