1 273 671 910

Ill-gotten Money and the Economy

Experiences from Malawi and Namibia

Stuart Yikona Brigitte Slot Michael Geller Bjarne Hansen Fatima el Kadiri



Contents

Foreword	vii
Acknowledgements	ix
Acronyms and Abbreviations	xi
Executive Summary	xiii
1. Introduction	1
Concepts of Money Laundering	1
"Economification" of Money Laundering	
What is AML?	
AML and Economic Development	5
Research Objectives	
Outline of the Report	8
2. Methodological Framework	10
Economic Effects	10
Economic Effects of the Underlying Criminal and Illegal Activities	11
Economic Effects of the Circulation of Ill-gotten Money	12
Magnitude	15
Methodology	18
Countries of Focus: Malawi and Namibia	19
3. Country of Focus: Malawi	25
The Malawi Economy	25
The Financial Sector	26
The Anti-Money Laundering (AML) System	26
Sources of Ill-gotten Money	28
Corruption	28
Tax Fraud	35
Cannabis Production	37
Other Crimes for Profit	39
Illegal Foreign Exchange Dealing	42
Transfer Pricing	43
Spending Patterns	44
Policy Considerations	46
4. Country of Focus: Namibia	53
The Namibian Economy	54
The Financial Sector	56

iii

The Anti-Money Laundering (AML) System	58
Sources of Criminal Money	60
Corruption	61
Organized Crime	67
Tax Fraud	70
Cross-border Money Flows	71
Spending Patterns	73
Policy Considerations	76
5. Summary, Conclusions, and Policy Considerations	81
Main Findings	82
General Findings	84
AML and Financial Inclusion	87
Abusive Behavior	88
Key Recommendations	89
Follow-up Research	89
Boxes	
Box 1.1. Terminology	4
Box 2.1. Attrition of Criminal Data (indicative scale only)	17
Box 3.1. Malawi Corruption in Historical Perspective	
Box 3.2. Police Uniforms	33
Box 3.3. Corruption in Public Procurement in Malawi	34
Box 3.4. Taxes, Duties, and Bribes	35
Box 3.5. Estimating the Domestic Tax Gap	36
Box 3.6. A Brief History of Cannabis in Africa	
Box 3.7. Destroying Cannabis	
Box 3.8. Illegal Forex Dealing in Lilongwe	
Box 3.9. Transfer Pricing	
Box 3.10. Collusive Pricing,	
Box 3.11. Conspicuous Consumption	
Box 3.12. Causes of Financial Exclusion	
Part 4.1 Communication from Part 1 F 1 C	
Box 4.1. Government Institutions Pension Fund Case	63
Box 4.2. Nuctech Case (Case Ongoing in Court)	63
Box 4.2. Nuctech Case (Case Ongoing in Court)	63 63
Box 4.2. Nuctech Case (Case Ongoing in Court)	63 63 65

*	٠					
H	1	O	11	r	ρ	ç
	٠	~	•	•	•	u

Figure 1.1. Concepts of Money Laundering	1
Figure 1.2. Basic Representation of Money Laundering	2
Figure 1.3. What is AML?	4
Figure 1.4. AML and Economic Development	5
Figure 2.1. The Impact of Illegitimate Activities, Ill-gotten Money Circulation, and AML Policies on Economic Development	15
Figure 4.1. The Namibian Economy Compared to Surrounding Countries in Terms of Overall GDP: In- and Outflow of Money	72
Figure 5.1. Framework for Analyzing the Amounts and Effects of Ill-gotten Money	82
Figure 5.2. Hierarchy of Expenses of Ill-gotten Money	84
Figure 5.3. Flows of Ill-gotten Money in a Cash-based Economy with a Large Informal Sector	85
Figure 5.4. Criminal, Illegal, and Abusive Activities	
Tables	
Table 1.1. Economic Definitions of Money Laundering	3
Table 2.1. 25 Economic Effects of Money Laundering	
Table 2.2. Economic Effects	11
Table 2.3. Malawi and Namibia At-A-Glance, 2009	20
Table 3.1. Breakdown of Suspicious Transaction Reports by Reporting Agency, Malawi, January 2008–October 2010	27
Table 3.2. Breakdown of Suspicious Transaction Reports by (assumed)	27
Table 3.3. Ill-gotten Money and the Economy: Malawi	29
Table 3.4. Key Constraints to Economic Development and Business Operation, 2010	31
Table 3.5. 10 Significant Corruption Cases in Malawi over the Last 10 Years	32
Table B3.1. The Cobham Approach of Domestic Tax Losses for Malawi and Namibia, 2009	36
Table 3.6. Selection of Significant Robberies in Malawi during the First Four Months of 2009	40
Table 3.7. Reported Cases of Fraud, Motor Vehicle Theft, Robbery, and Burglary by the Malawi Police Service, 2009 and 2010	41
Table 3.8. Spending Behavior at Different Levels of Corruption in Malawi	45
Table 4.1. Namibia and Surrounding Countries: The Economy, Corruption, Governance, and Financial Exclusion	54
Table 4.2. Breakdown of Suspicious Transaction Reports by Reporting Agency, Namibia, May 5, 2009–December 15, 2010	59
Table 4.3. Breakdown of Suspicious Transaction Reports by (assumed) Predicate Offense, Namibia, May 5, 2009–December 15, 2010	
Table 4.4. Ill-gotten Money and the Economy: Namibia	60
Table 4.5. Selected Corruption Cases in Namibia, 2000–10 (proven and still pending in court)	62
Table 4.6. Perceptions of Corruption in Namibia	

Table 4.7. Motor Vehicle Theft, Drug Trafficking, and Protected Resources Related	
Crime in Namibia: Value in N\$ (2009 and 2010)	70
Table 4.8. Commercial Crime in Namibia: Value in N\$ (2010)	70
Table 4.9. Recycling Channels	73
Table 4.10. Economic Effects of Crime and Ill-gotten Money in Namibia	75
Table 5.1. Malawi and Namibia: Main Findings	83
Table 5.2. Examples of Bank Charges in Malawi and Namibia as of March 29, 2011.	86