**EVALUATION OF THE LEGAL FRAMEWORK FOR CORPORATE INSIDER TRADING IN TANZANIA**

## 

**Abstract**

Corporate insider trading undermines market integrity, investor confidence, and the overall efficiency of capital markets, making its regulation a critical priority for emerging economies such as Tanzania. This paper evaluates the effectiveness of Tanzania’s existing legal framework governing insider trading, analyzing the clarity of its legislative provisions, enforcement mechanisms, and institutional capacity. While Tanzania has made significant strides in establishing a regulatory structure through the Capital Markets and Securities Authority (CMSA) and relevant securities laws, the study identifies notable gaps in the comprehensiveness of the legal definitions, investigative powers, and punitive measures related to insider trading. Enforcement challenges are compounded by limited technical expertise, insufficient surveillance infrastructure, and low public awareness, which collectively weaken deterrence and compliance efforts. Drawing on comparative insights from **International Organization of Securities Commissions (IOSCO)** and jurisdictions with more mature regulatory regimes, this paper highlights best practices such as specialized enforcement units, whistleblower protection, and advanced market monitoring technologies that Tanzania could adapt to its context. This requires legislative reforms to clarify insider trading offenses and penalties, enhanced institutional capacity building, stronger cross-border cooperation, and expanded investor education initiatives. The findings underscore that an integrated approach combining robust legal frameworks, effective enforcement, and increased market transparency is vital for fostering a fair and trustworthy securities market in Tanzania.

**Keywords:** Insider Trading, Tanzania, Legal Framework, Market Integrity, Enforcement, Investor Protection

**Introduction**

Corporate insider trading, defined as the buying or selling of securities based on material, non-public information, remains a critical concern globally due to its detrimental impact on market integrity and investor confidence.  Insiders' net buying increases before open market [share repurchase](https://www.sciencedirect.com/topics/economics-econometrics-and-finance/share-repurchase) announcements and decreases before seasoned equity offers[[1]](#footnote-1). Higher insider net buying is associated with better post-event operating performance, a reduction in undervaluation, and, for repurchases, lower post-event cost of capital[[2]](#footnote-2).Insider selling among undisclosed investigations with the most severe negative outcomes; and that abnormal selling activity appears highly opportunistic and earns significant abnormal returns[[3]](#footnote-3). Insider trading also predicts announcement returns and long-term abnormal returns following events[[4]](#footnote-4). This means that insider trades before corporate events contain information about changes both in fundamentals and in investor sentiment[[5]](#footnote-5).Insider trading undermines the principle of a level playing field by granting insiders an unfair advantage over ordinary investors, which distorts market prices and erodes trust in financial markets. This challenge is particularly acute in emerging economies, where capital markets are still developing, and regulatory frameworks are often weaker or less mature..Corporate failures resulting from financial instability or scandal have serious negative consequences for all stakeholders, including employees, business partners, investors, creditors, auditors, regulators, capital markets, and society at large[[6]](#footnote-6) Robust regulation and enforcement against insider trading are thus vital for the promotion of fair and transparent capital markets, which serve as key mechanisms for mobilizing savings, allocating capital efficiently, and fostering economic growth.

Corporate insider trading has been elaborated in the landmark case of Strong v. Repide,*[[7]](#footnote-7)* where the court emphasized that a company director who sells their own shares while keeping potential buyers unaware of their expected actions is acting deceitfully and, therefore, fraudulently.[[8]](#footnote-8) Such insider trading practices undermine the integrity of the investing system and discourage non-insiders from investing, as they may feel at a disadvantage compared to insiders who possess critical information.[[9]](#footnote-9) Additionally, in the case of Juma Rajabu Furaji v. CRDB Bank PLC & 2 Others*[[10]](#footnote-10)*, the court ruled that the sale of the plaintiff's 58,390 shares, which were fraudulently transferred from CDS Account No. 121108 containing 175,387 ordinary shares issued by Tanzania Portland Cement Company, was null and void. The defendants were ordered to return the 58,390 ordinary shares to the plaintiff’s CDS Account No. 121108, from which they had been unlawfully sold[[11]](#footnote-11). Similarly, in the case of Millicom Tanzania NV v. James Alan Russels Bell & 5 Others,[[12]](#footnote-12) the court determined that the 34,479 shares that had been illegally sold must be restored to the applicant. These cases illustrate the detrimental effects of insider trading on market integrity and highlight the necessity for robust regulations to protect investors and ensure a level playing field in the securities markets.

The thrust of this study is that unlike USA, Tanzania is far behind in its strategy of combating insider trading in securities markets in the contexts of international standards. The increasingly global market has given rise to increased interaction and interdependence among national regulators as well as investors in different jurisdictions. At the same time securities markets worldwide are undergoing tremendous reform brought by many forces, for instance advance in technology and globalization implying that stock changes have to consider how to adapt to serving markets beyond their traditional borders[[13]](#footnote-13). This situation has made Tanzania to be exposed to international securities markets where there is stiff competition and survival of its securities market depend on the strong laws to combat flaws in the markets.

Apart from having inadequate rules, enforcement of the laws has not been effective as Tanzania continues to have several amendments in the securities markets laws which seem to be irrelevant due to the persistent of insider trading. For instance, despite the amendment of its current law[[14]](#footnote-14) in securities markets, the performance is bound to take a beating because foreign investors already rattled by regime policies on securities markets regulations.[[15]](#footnote-15) Therefore, in order to discover the consequences of its inadequate laws the current study intends to investigate the consequences of the available loopholes for the purpose of filling such lacuna.

The presence of laws characterized by gaps, duplications, and ambiguities have brought several regulatory problems to the enforcement authorities particularly with regard to the detection, investigation and prosecution of cross-border market abuse activities like insider trading. The consequence of the loopholes in law is likely to survive into the competition available in the securities markets contributing to the growth of market abuses like insider trading. However, broad view of insider trading could properly be comprehended if and only if a large number of practices related to insider trading are considered fraudulent, manipulative or improper.[[16]](#footnote-16) Tanzania has been continually trying to expand its securities markets by amending its legal framework but the country has failed to achieve its objective due to insider trading practices.

The malpractices of corporate insiders cause serious loss of revenue as well as poor functioning of the securities markets. It is expected that when investment is high the collection of tax is going to increase thus contributing to the rise of revenue. Contrarily, corporate insiders have been perpetuating illegal insider trading practices which benefit their positions while affecting those investing in the securities markets. They fail to adhere to fiduciary duties assigned to them by law[[17]](#footnote-17). For example, the DSE Plc total income decreased by thirteen percent from the revenue of ten point zero.[[18]](#footnote-18) In terms of market value, the DSE Plc decreased to TZS one hundred and four billion from turnover of TZS fifty nine billion in 2020.[[19]](#footnote-19) Also, corporate bonds decreased TZS one hundred and forty three billion.[[20]](#footnote-20) In terms of financial performance, the total income decreased by thirteen percent from the revenue of ten billion in 2020 to eight point seventy seven billion in 2021. The profit before tax decreased marginally to TZS four point zero four compared to the profit before tax TZS four point eighty one billion in 2021.

The fraudulent behaviours of insiders reduce revenue as there is no serious investor prepared to invest in a country where its economy is shrinking due to illegal practices. That is why, the lion's share of the total cost of investing in a share in Tanzania is taken up by stockbrokers, who are now struggling to cover their operating costs due to reduced trading volumes while other fees go towards settlement and clearing of transactions, among other statutory charges.[[21]](#footnote-21) For example, in Tanzania there are twenty eight listed companies in DSE plc but activities in the securities markets have been sluggish, attributed to reduced corporate earnings by listed firms and declining participation by foreign investors, who contribute about eighty per cent of the market's liquidity.[[22]](#footnote-22) Similarly, the Tanzania All Share Index shed one per cent month-on-month to close at two thousand two hundred and seventy point three units in August, down from two thousand two hundred and ninety three point three units in July, 2020 according to a report by Cytonn Investments.[[23]](#footnote-23)

The fall of revenue has impact on economic growth as Tanzania securities markets are faced with low liquidity across the region. Some of the insiders trading factors of low liquidity are weak market fundamentals, low free floats except for a few blue chips, and low market access by local retail investors.[[24]](#footnote-24) This behaviour has triggered dependence on foreign investors, mainly from emerging markets and investors investing with a dollar-based currency.[[25]](#footnote-25) For instance, the policy changes by the US Federal Reserve play a huge role in the position these investors take, which makes the Tanzania market vulnerable.[[26]](#footnote-26)

Moreover, it is reported that there was decline of foreign investors’ participation who contribute significantly on the equity liquidity.[[27]](#footnote-27) The current gap in legislations in Tanzania on insider trading provides insiders with an opportunity to hide essential information which is necessary for investors in securities markets. The corporate insiders use such loopholes to make abnormal profits which in turn affect the investment in securities markets. Insiders behaviours tend to discourage the public from investing in the securities markets as they are not assured of their securities. Insiders think that they are indispensable than those who are investing in the securities markets. Arguably, the sustainability of securities markets depends on several factors including the amount of investment. Hence, the investors play a crucial role as they are the corner stone of the securities markets. They deserve to be valued as their absences impacts strongly on the securities markets. Investors are essential because they are central to the effective functioning of the securities markets. This failure is attributed to the presence of inappropriate laws which restrict the trading process in EA securities markets to align their securities operations[[28]](#footnote-28).

Decline of investors’ leads to reduction of capitals implying deterioration of securities markets due to malpractices resulting from insider trading. For example, the evidences show that market stocks in Tanzania have little cheer in terms of attracting new listings, increased participation from local retail investors and trading dominated by a few large firms[[29]](#footnote-29). This may also be observed in a trend projected to continue in the year 2020, where securities markets in Tanzania became captive to foreign investors and government bonds while experiencing prolonged drought of attracting new corporate listings.[[30]](#footnote-30) Such inadequacy at the globalized era opens the room for criminals from other areas in the world to temper with securities markets in Tanzania. When it comes to combating of insider trading, it creates difficulties for less developed countries to have strong regulatory mechanism for regulating securities markets. For example, in Tanzania brokerage commission on equity trading are regulated at one point five per cent.[[31]](#footnote-31) Since investors consider transaction costs in their investment decisions, the markets with high transaction costs also have low liquidity.[[32]](#footnote-32)

Moreover, securities markets laws in Tanzania have been influenced by developed jurisdiction like USA. This situation makes enforcement to be impractical as the contexts differ from one jurisdiction and the other. The pertinent issue here is that the context of Tanzania and US securities markets is quite different. The tendency of copying and pasting laws with the notion they will work in the same manner is critical as far as their enforcement is concerned. This is due to the fact that there is a huge gap in terms of economy, thus it is not easy to for laws copied to work well in the environment where its economy is shrinking. For example, a new survey by global financial and investment by RisCura shows that Tanzania has the most expensive stock market in the entire continent due to high brokerage fees, clearing and settlement fees, and other charges perpetuated by insider trading.[[33]](#footnote-33) . That is why the 2018 study by RisCura pointed out DSE as the most expensive followed by NSE in the region.[[34]](#footnote-34) Non disclosure of pertinent information tends to increase costs in securities markets. According to the study by RisCura,[[35]](#footnote-35) securities markets investors are sensitive to the cost of the shares and would prefer putting money in relatively cheaper markets partly explaining the low trade volumes and the increasing level of illiquidity in these markets.[[36]](#footnote-36)

Compounding these challenges is the lack of comprehensive data on insider trading incidents, making it difficult to assess the effectiveness of existing regulations and identify trends that could inform future policy adjustments.[[37]](#footnote-37)A lack of comprehensive data on insider trading incidents makes it challenging to assess the effectiveness of existing regulations and to identify trends that could inform future policy adjustments.[[38]](#footnote-38) Furthermore, without robust investor education initiatives, many potential investors remain unaware of their rights and the protections available to them. This lack of awareness can diminish market participation and further erode trust in the securities market. Addressing these gaps is crucial for fostering a more transparent and reliable trading environment.[[39]](#footnote-39)

**Methodology**.

This paper employed the doctrinal legal methodology to critically analyze the legal framework governing corporate insider trading in Tanzania. It involved a detailed examination of primary legal sources such as statutes, regulations, and case law, alongside international standards like the IOSCO principles. The methodology enabled a thorough evaluation of the legal definitions, enforcement mechanisms, and institutional structures in place, highlighting gaps, inconsistencies, and areas for reform. By comparing Tanzanian laws with those of more advanced jurisdictions, the study identified weaknesses in the current framework and proposed normative recommendations to strengthen legal provisions, enforcement capacity, and regulatory effectiveness.

**Legal Framework for Securities Markets**

Unregulated insider trading in securities markets undermines investor confidence and discourages capital investment.[[40]](#footnote-40) In Tanzania, the fundamental laws that deal with insider trading include the Capital Markets Securities Act[[41]](#footnote-41), Chapter 79, the Company Act no. 12 of 2002[[42]](#footnote-42) and Tanzania Investment Act no. 10 of 2022 and the Fair Competition Act, 2003[[43]](#footnote-43). The Acts are supplemented by nineteen regulations[[44]](#footnote-44) and guidelines[[45]](#footnote-45) governing specific aspects of securities markets. The regulations are made by DSE and Capital Markets and Securities Authority (CMSA). The Capital Market and Securities Act[[46]](#footnote-46) has been amended twice with intention to incorporate the demands of securities market in Tanzania.[[47]](#footnote-47) The first amendment was in the year 1997 which incorporated changes related to market players and operators to giving more protection and securities to investors.[[48]](#footnote-48)

The second amendment was in the year 2002.[[49]](#footnote-49) These amendments were done in view of coordinating with the changes in other laws related or connected to the securities industry in the country, which had direct impact on the operation of securities market namely the Companies Act[[50]](#footnote-50) and the Fair competition Act of 2003.[[51]](#footnote-51) Despite these legislative efforts, significant gaps and challenges remain in the enforcement of insider trading regulations. One major issue is the limited regulatory authority, as the Capital Markets and Securities Authority (CMSA) faces resource constraints that hinder its ability to effectively monitor and enforce compliance with insider trading laws. This can lead to potential lapses in oversight, allowing violations to go unchecked. Additionally, there is variability in the application of regulations, which creates a perception of impunity among market participants. This inconsistency undermines the deterrent effect of the laws and erodes investor trust in the integrity of the market.

Internationally, securities markets are regulated by the standards set by the International Organization of Securities Commissions (IOSCO). As the primary international policy and cooperation forum for agencies that oversee parts of the financial sector—specifically the securities and futures markets—IOSCO plays a crucial role in enforcing related legislation and engaging bodies with vested interests in securities regulation[[52]](#footnote-52) . Governed by its own statutes known as By-Laws, IOSCO establishes a governance structure that includes various committees composed of member representatives.[[53]](#footnote-53) The primary role of IOSCO is to set high international standards for securities regulation, promoting cooperation, information exchange, and mutual assistance among its members.[[54]](#footnote-54)  It operates as a global standard setter for the securities sector.[[55]](#footnote-55)Operating as a global standard setter for the securities sector, IOSCO develops, implements, and encourages adherence to internationally recognized standards for securities regulation.[[56]](#footnote-56)

Tanzania is a member of IOSCO and is included in Appendix A as a signatory to the IOSCO Multilateral Memorandum of Understanding, which facilitates information sharing and cooperation among securities regulators.[[57]](#footnote-57) The organization has been recognized as the global standard setter for securities regulation since the 1990s.[[58]](#footnote-58) The standard setting and related activities of the organization including any decisions reached or documents issued are not binding and do not give rise to legal obligations[[59]](#footnote-59). Members participate in the organization in accordance with their respective legal and policy frameworks which may not be modified or superseded by these By-laws or any decision of the organization.[[60]](#footnote-60)Despite their legally non-binding nature, the standards embodied in the IOSCO Principles thus tend to be incorporated in the domestic legal and regulatory framework of most jurisdictions around the world.[[61]](#footnote-61)

Despite having fundamental laws, regulations, guidelines and authority to regulate securities markets as well as being signatory of IOSCO a survey by global financial and investment by RisCura shows that Tanzania has the most expensive stock market in the entire continent due to high brokerage fees, clearing and settlement fees, and other charges perpetuated by markets abuses like insider trading.[[62]](#footnote-62). The problem of corporate insider trading in Tanzania threatens the performance of securities markets. Such situation caused the DSE PLC total income decreased by thirteen percent from the revenue of ten point zero.[[63]](#footnote-63)Total market capitalization of DSE went down by 12 percent from TZS 17,106 billion as of 31st December 2019 to TZS 15,095 billion as of 31st December 2020; this was due to decline in prices, especially for cross listed counters.[[64]](#footnote-64) Also, corporate bonds decreased TZS one hundred and forty three billion.[[65]](#footnote-65) Hence, such situation is likely to affect the securities markets as well as the economy of Tanzania in the present and future if the legal framework is not examined effectively.

**Critical Analysis of Capital Markets and Securities Act**

The core objective of insider trading regulation is to protect the interests of retail investors and ensure that all market participants have equal access to critical information affecting securities prices. According to IOSCO principle 29 Regulation should aim to ensure the proper management of large exposures, default risk and market disruption[[66]](#footnote-66). Without effective regulation, markets become inefficient as insiders capitalize on privileged information, while uninformed investors face increased risks and may withdraw from participation altogether. This means that Regulation should be designed to detect and deter manipulation and other unfair trading practices[[67]](#footnote-67). This asymmetry of information also raises systemic risks by encouraging speculative behavior and eroding the confidence necessary for sustained investment and liquidity. The presences of such behaviors in the market encourage abuses which hamper the effectives and efficiency in the market.

The United States securities law framework may be perceived as a model to be adapted to the culture and needs of other jurisdictions.[1](https://www.elibrary.imf.org/display/book/9781589063341/ch038.xml#ch38fn01) Included within this framework are issues focusing on insider trading practices[[68]](#footnote-68). The U.S. securities regime maintains a critical component that other countries thus far have failed to achieve: an enforcement framework, based on government as well as private actions, that enhances compliance with the law and facilitates the levying of sanctions should violations occur. In the European Union insider trading has been regulated much more recently than in the United States, and it can be argued that, at least traditionally, it has been more aggressively and successfully enforced in the United States than in the European Union[[69]](#footnote-69). These jurisdictions combine clear legal definitions, strong investigatory powers including subpoena authority, asset freezing, and advanced market surveillance technologies to detect suspicious trading patterns. Whistleblower protection programs further enhance enforcement by encouraging insiders to report misconduct, thus increasing the likelihood of detection and prosecution.

The International Organization of Securities Commissions (IOSCO) is the global standard setter for securities regulation. IOSCO seeks to protect investors; ensure that markets are fair, efficient and transparent; and reduce systemic risk. IOSCO's core standards, *the*Objectives and Principles of Securities Regulation*(*the IOSCO Principles) and the related Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation(the Methodology), help to achieve these objectives. The 30 principles need to be practically implemented under the relevant legal framework to achieve the objectives of regulation described above. The principles are grouped into eight categories[[70]](#footnote-70). IOSCO emphasizes the need for regulatory independence, strong enforcement powers, cooperation across jurisdictions, transparency, and investor education as fundamental components of an effective insider trading regime. These benchmarks serve as important reference points for emerging markets seeking to develop their own legal and regulatory frameworks.

In Tanzania, securities market is relatively nascent and evolving. The securities market in Tanzania emerged in the 1990s as a result of the government policy to liberalize the Tanzania financial sector, which included a 1990 study on monetary issues[[71]](#footnote-71). The Dar es Salaam Stock Exchange (DSE), established in 1996, is the primary platform for trading equities and bonds and represents the focal point of the country’s capital market activities. Some of the companies a listed at DSE are Tanzania Oxygen Limited (TOL), Tanzania Breweries Limited (TBL), Tanzania Cigarette Company (TCC), Tanzania Tea Packers Limited (TATEPA), Swissport (formerly DAHACO), Tanga Cement Company (SIMBA), East African Breweries (EABL), and Kenya Airways (KA)[[72]](#footnote-72). Treasury and corporate bonds are also listed at the Dar es Salaam Stock Exchange (DSE) The Capital Markets and Securities Authority (CMSA) serves as the principal regulatory agency charged with overseeing market conduct, including the enforcement of insider trading provisions under the Capital Markets and Securities Act (CAP 79).Despite this institutional framework, Tanzania’s enforcement of insider trading regulations remains weak and faces significant challenges related to resource constraints, limited legal clarity, and institutional capacity.

Furthermore, Tanzania is a signatory to IOSCO. Although IOSCO’s principles and objectives are not legally binding, countries are encouraged to adhere to them especially in today’s globalized world. The Tanzanian legal framework prohibits insider trading, but it lacks comprehensive and explicit definitions of insider offenses, clear procedural rules for investigation and prosecution, and adequate investigatory powers for regulators. This legal vagueness hampers effective enforcement, resulting in few publicized prosecutions or sanctions against offenders. Consequently, the deterrent effect of the law is minimal, and investor confidence is undermined. The lack of well-publicized enforcement actions also perpetuates a culture of non-compliance and low awareness among market participants about insider trading risks and obligations.

Tanzania's capital market faces structural and institutional challenges that exacerbate risks such as insider trading. The market remains shallow, with low liquidity, few listed firms, and tightly connected corporate networks, which enable undue influence by a small group of informed insiders. Limited financial literacy and minimal investor education further undermine voluntary compliance and efforts to instill a culture of market integrity. The Capital Markets and Securities Authority (CMSA) operates with constrained resources, lacking the advanced tools, expertise, and specialized courts needed to effectively investigate and prosecute insider trading cases.

Enforcement is further weakened by the absence of whistleblower protections and limited inter-agency and international cooperation, which hinders cross-border investigations. While the CMSA has made progress through staff training, updated surveillance systems, and regional collaboration, systemic barriers remain. To build a credible and fair capital market, Tanzania must implement comprehensive reforms—strengthening legal definitions, enhancing enforcement capacity, protecting whistleblowers, fostering judicial specialization, and investing in investor education. These measures are essential to promote market integrity and attract both local and international investment.

**Conclusion**

Strengthening Tanzania’s insider trading framework is critical for enhancing the integrity and functionality of its securities market. A robust regulatory system will not only deter market manipulation and promote investor confidence but also lay the foundation for a more transparent and accountable financial environment. These improvements are vital in fostering long-term investment and ensuring that the capital market serves as a reliable engine for economic development.

To achieve these goals, comprehensive reforms must be implemented in alignment with international best practices. The active involvement of all stakeholders—policymakers, regulators, investors, and financial institutions—is crucial in driving this transformation. With sustained effort and strategic coordination, Tanzania can position itself as a competitive and trustworthy market within the global financial landscape, ultimately supporting its broader socioeconomic aspirations.

**Recommendation**

To enhance the effectiveness of Tanzania’s legal framework on corporate insider trading, a comprehensive reform agenda is needed, focusing on both legislative clarity and institutional strength. The legal framework should be updated to clearly define insider trading offenses and include robust enforcement provisions, such as stricter penalties and broader coverage of misconduct like tipping and misappropriation. Legal certainty and accountability can be improved by adopting best practices from established markets. Equally important is empowering regulatory authorities with adequate resources, investigative tools, and prosecutorial powers to pursue both administrative and criminal actions. Specialized units and whistleblower protections would further improve enforcement outcomes and help deter violations.

On an institutional level, capacity building and modernization are essential. Regulatory bodies, judicial officers, and market intermediaries require targeted training to handle complex insider trading cases effectively. Collaboration with regional and international partners can strengthen cross-border enforcement and promote knowledge sharing. Investing in advanced surveillance technology will help detect suspicious trading activity more efficiently. At the same time, expanding public education and awareness campaigns can encourage compliance and ethical conduct among investors and corporate insiders. Together, these reforms will build a more transparent, credible, and investor-friendly capital market in Tanzania.

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