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DEPARTMENT OF SOCIOLOGY AND SOCIAL WORK

AN ASSESSMENT OF THE EFFECTIVENESS OF THE FINANCIAL REPORTING CENTRE AND FINANCIAL INSTITUTIONS IN PREVENTION OF MONEY LAUNDERING: A CASE STUDY OF NAIROBI COUNTY

BY

NAME: THOMAS MULI KATHULI

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DECLARATION

I confirm that this research project is my original work and has not been submitted for examination in any other university for the award of a degree.

Sign…………………………………… Date……………………………………

Kathuli, Thomas Muli

Reg No: C50/85556/2016

Declaration by Supervisor

This research project has been submitted for examination with my approval as the University Supervisor.

Sign…………………………………… Date………………………………………..

Professor Edward K. Mburugu

DEDICATION

I wish to dedicate this work to Almighty God for giving me the determination to complete this programme. I also wish to dedicate this work to my wife and children for their steadfast support and love.

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I would like to thank various institutions and people who have made valuable inputs that has made this proposal a success. These include FRC that gave me the opportunity to conduct the study, and financial institutions and law enforcement agencies for their participation. I thank the various faculty members who supported me in shaping the research work through the various inputs, beginning with the research proposal, and whose constructive criticism made this possible.

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ABBREVIATIONS

AML	-	Anti- Money Laundering
CFT	-	Combating the Financing of Terrorism
FATF	-	Financial Action Task Force
FRC	-	Financial Reporting Centre
IMF	-	International Monetary Fund
ML	-	Money Laundering
MLCOs	-	Money Laundering Compliance Officers
MLROs	-	Money Laundering Reporting Officers
POCAMLA	-	Proceeds of Crime and Anti-Money Laundering Act
POTA	-	Prevention of Terrorism Act
UNODC	-	United Nations Office on Drugs and Crime

ABSTRACT

The control of money laundering has not been successful despite the enactment of POCAMLA and other laws. Money laundering damages the stability of financial sectors and places significant costs on the economy leading to erosion of public confidence in the financial system and the legal order. The Financial Reporting Centre is the leading government agency mandated to combat money laundering in collaboration with registered financial institutions, law enforcement agencies and foreign FIUs. This study aimed at examining factors that affect FRC and financial institutions in prevention of money laundering in Kenya. These included causes of Money Laundering, the main actors in Money Laundering, extent to which the FRC and Financial Institutions have succeeded in combating Money Laundering and the underlying obstacles to the prevention of Money Laundering in Kenya. This study utilised Rational Choice Theory, Routine Activity Theory and Deviance Theory (Strain Theory) to explain the relationship between the dependent and independent variables. The site for the study was FRC and financial institutions. Eighty (80) respondents were selected by stratified random sampling from FRC, and financial institutions namely commercial banks, Forex Bureaus and Money Transfer outlets. Seven (7) key informants from FRC, financial institutions and law enforcement agencies were purposefully selected. Questionnaires and a key informant guide were used to collect data from the respondents which were analyzed using SPSS computer package and content analysis. The findings of the study reveal that factors that lead to the prevalence of money laundering are technological innovation, globalization, inadequate training, inefficiencies in coordination among stakeholders, improvements in communications, poor statistics and information imbalance and spread of international banks. The actors in money laundering include criminals of the predicate offences, professional advisors, financial institutions and regulators. Other actors are commercial banks, money remittances providers and insurance companies, law enforcement officers, micro finance institutions and telecommunication companies and mortgage finance companies and investment banks. The study found that FRC has succeeded in combating money laundering due to interventions by FRC and by other institutions. The underlying obstacles to the prevention of money laundering were found to be failure to enforce the money laundering rules and regulations, inefficiencies in coordination and inadequate training in anti-money laundering. Others are poor statistics and information imbalance, poor communications and inferior technological knowledge or skills. The study recommends that Government should strengthen AML legislation by giving clarity in the definition of money laundering under section 3 of POCAMLA. Other sections to be given clarity are section 4 on knowledge of property and section 8 on tipping off and reconsideration of the reporting threshold of USD 10,000. Government should ensure that there are adequate AML controls and encourage courts to impose stiff sentences. Government should also provide enforcement agencies with adequate training in anti money laundering to increase their capacity and put more effort in tackling illicit money flows. The study recommends further research in the role of other law enforcement agencies in order to get a true and broad picture of the issue.

CHAPTER ONE
INTRODUCTION

1.1 Background

Money laundering can be defined as a process by which the real source of illegally acquired money is concealed to obscure the link between the funds and the original criminal activity (International Monetary Fund, 2014). These crimes include illegal arms sales, smuggling, drug trafficking, embezzlement, insider trading, tax evasion and cybercrime among others (Imala, 2004). The process of money-laundering includes a series of multi-specialized deals designed to disguise the source of financial assets so that these assets and funds can be used as legitimate sources resulting from legitimate business operations (Agarawal & Agarawal, 2005). If undertaken unsuccessfully, it allows criminals to maintain control over illicit funds and thereby provide a legitimate cover for their source of income (Financial Reporting Centre, FRC, 2015). The aim is to distance illicit funds from the criminals, obscure the criminal trail and reposes the laundered funds which can be used to finance further criminal activities such as terrorism (UNODC, 2014).

Money laundering has been in existence for a longtime as criminals strive to conceal the origin of illegally acquired money and the original criminal activity. Globalization, improvements in communications and spread of international banks has led to the prevalence of the crime (McDonnell, 2006). Technological innovation has also enabled criminals to launder funds through anonymous transfer in seconds, an issue which presents challenges for authorities (Strasbourg, 1990). Money laundering is typically a transnational organised crime whereby criminals tend to commit the predicate offence in one jurisdiction and then launder the illicit proceeds through another to make the proceeds more difficult to trace (Rider, Alexander, Linklater & Bazley, 2009).

The complexity and rapidly evolving methods of laundering money and financing terrorism led the international community to call for cooperation and establishment of coordinated and effective international Anti money laundering /Combating Financial Terrorism (AML/CFT) platform, namely the Financial Action Task Force (FATF)

(Moshi, 2007). FATF was established by the G7 countries in 1989 to prevent and combat money laundering and financing of terrorism (Moshi, 2007; Wilke, 2008). It does this by setting AML/CFT standards and by promoting legislative and regulatory reforms through international cooperation (Sohraby, Habibitabar, & Masoudzade, 2016). FATF follows a set of 40 standards or recommendations on international AML and a set of Nine Special Recommendations on the financing of terrorism. These recommendations are the principal standards to guide the prevention, detection and suppression of money laundering, the financing of terrorism and the financing of proliferation of weapons of mass destruction.

Prior to the year 2009, anti-money laundering initiatives in Kenya were spearheaded by the National Taskforce on Anti-Money Laundering and Combating the Financing of Terrorism (NTF). The NTF was a multi-disciplinary Taskforce comprising various Government ministries, agencies and departments and was established through a gazette notice in 2003 (FRC, 2017). The Financial Reporting Centre (FRC) became operational in 2012 and is established under section 21 of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA). FRC is an independent body whose principal objective is to assist in the identification of the proceeds of crime and combating money laundering. It achieves this by analysing reports from registered financial institutions and disseminating intelligence to law enforcement agencies. The Centre also collaborates with and exchanges intelligence relating to money laundering or terrorist financing with Financial Intelligence Units (FIUs) in other jurisdictions (FRC, 2017a).

Despite the role played by FATF, operations of FATF-Style regional bodies (FSRBs) and activities of the FRC, money laundering continues to adversely affect the level of economic development and has seriously dented the international image of the African continent. Money laundering has a more significant impact on developing countries with relatively small or fragile financial systems or weak economies. Money laundering threatens national and international security by impacting the economy negatively. This takes place through damaging financial sector institutions, scaring away foreign investors and reducing a country's access to both foreign investment and foreign markets (Moshi, 2007).

Money laundering also causes unequal distribution of wealth, increases the profitability of crime, promotes corruption and can have a negative effect on good governance (Keesoony, 2016). The FRC has been operating since 2012 with POCAMLA to combat money laundering in the financial sector. However, businesses and professionals in the nonfinancial sector and alternative remittance systems have been increasingly used and abused by criminals. The cash-based and parallel economy in which money circulates outside the conventional financial system is also vulnerable to misuse for money laundering (Imala, 2004).

1.2 Problem Statement

Despite the enactment of POCAMLA and other laws designed to curb money laundering, these crimes still take place and are in most cases on the increase (FRC, 2017a). Control of money laundering has not been successful perhaps due to ineffective implementation of anti-money laundering regulations, a cash-based and parallel economy, banks' confidentiality requirements or ineffectiveness of financial-sector supervision and inadequate mutual assistance (Moshi, 2007). While the FRC has high hopes about its role in combating money laundering, it does not exactly have reliable estimates of its performance (FRC, 2017a). In order for the Government to protect its financial systems from the destabilizing effects of money laundering, it is imperative that it acts and responds to this scourge with unprecedented resolve and commitment to combating it. Although various studies have been done on factors affecting the prevention of money laundering, very few have been conducted that relate to Financial Reporting Centres or Financial Intelligence Units, more so in Kenya.

A number of studies had been conducted regarding factors affecting the prevention of money laundering in general. Levi (2015) for instance explored money laundering and money from crime and found that AML controls and financial investigations are not sufficient to solve money laundering. Instead, transparency and effective action against high level corruption is needed. Nazatul, Syed, Nazri, Zolkafil and Omar (2016) found that there is need for strong cooperation, coordination and capacity of law enforcement agencies during investigations. Viritha, Mariappan and Ul Haq (2015) studied the effectiveness of AML reporting systems in terms of impact of suspicious transaction reporting (STRs) on controlling money laundering. They found that commitment and cooperation is needed among stakeholders to realize positive impact from AML regime.

Moshi (2007) studied the fight against money laundering challenges in Africa and found that regulations, banks' confidentiality requirements or ineffectiveness of financial-sector supervision and inadequate mutual assistance led to failure in the control of money laundering. In their study on money laundering in Nigeria, Agu, Nwankwo and Onwuka (2016) found that international cooperation through gathering and sharing intelligence, and law enforcement assisted in overcoming money laundering. In Kenya, a number of studies on controlling money laundering had been conducted. Warui (2016) explored Kenya's legal and institutional framework and found that the AML regime advocates for preventive controls but is silent on tracing and confiscating proceeds of crime.

Further research by Wambui (2014) sought to establish inadequacies of the AML regime in Kenya. The study revealed that since coming into force of POCAMLA, there has not been any successful money laundering investigation or prosecution. The literature evidently reveals that anti-money laundering regimes have benefits in prevention of money laundering but little is known about factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering in Kenya. This is the knowledge gap which this study aimed to address.

1.3 Research Questions

This study was guided by the following research questions:

i. What are the causes of money laundering in Kenya?
ii. Who are the main actors in money laundering in Kenya?
iii. To what extent has the financial reporting centre and financial institutions succeeded in combating money laundering in Kenya?
iv. What are the obstacles to the prevention of money laundering in Kenya?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of the study is to examine factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering in Kenya.

1.4.2 Specific Objectives

i. To assess the causes of money laundering in Kenya.
ii. To identify the main actors in money laundering in Kenya.
iii. To establish the extent to which the financial reporting centre and financial institutions have succeeded in combating money laundering in Kenya.
iv. To determine the underlying obstacles to the prevention of money laundering in Kenya.

1.5 Justification of the Study

Prevention of money laundering through AML regimes including functions of FRC is an important issue. Money laundering damages stability of the financial sector and places significant costs on the economy through promotion of poor economic policies. This leads to erosion of public confidence in the financial system and the legal order. As a result, there is reduction in the growth rate of the national economy and an increase in the local costs of living (Pavlovic & Bosckovic, 2015). Money laundering also poses the threat of funding terrorism and transnational crimes and also enables widespread crime including corruption, drug smuggling, human trafficking, fraud, tax evasion and cybercrime (Gilmore, 2011; Mohsin, 2013). It is therefore imperative that factors that affect the AML regime such as FRC and Financial Institutions in the prevention of money laundering are discovered and addressed.

The study informed on the contribution of FRC and Financial Institutions in the prevention of money laundering and the factors that affect this role. FRC became operational in 2012 with the principal objective of assisting in the identification of the proceeds of crime and combating money laundering. Despite the importance of FRC in the prevention of money laundering, there is little information on it and very limited research has been done to assess factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering. The study informed on the factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering and also provide information to policy makers and stakeholders, contribute to the body of knowledge and also create opportunities for further research.

1.6 Scope and Limitations of the Study

This study focused on the Financial Reporting Centre while information pertaining to Money Laundering was sourced from reporting financial institutions, law enforcement agencies and the Financial Reporting Centre itself. The Financial Reporting Centre plays a key role in prevention of Money Laundering and therefore provided important information on prevention of Money Laundering. The study looked into the causes of Money Laundering and the main actors in Money Laundering in Kenya. Additionally, the study also established the extent to which the Financial Reporting Centre and Financial Institutions have succeeded in combating Money Laundering and the underlying obstacles to the prevention of Money Laundering in Kenya.

The limitation of this study was that while appreciating that there are many other local and international entities that combat money laundering, this study only looked at factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering in Kenya. Other entities that combat money laundering such as local law enforcement agencies and foreign Financial Intelligence Units were therefore not examined directly in this study.

CHAPTER TWO
LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

This chapter reviews both published and unpublished literature that is relevant to the study topic and objectives. It summarizes existing information on the causes of money laundering and the main actors in money laundering. It also discusses the extent to which the Financial Reporting Centre has succeeded in combating money laundering and the obstacles to the prevention of money laundering in Kenya. The chapter concludes by formulating both theoretical and conceptual frameworks.

2.2 Causes of Money Laundering in Kenya

2.2.1 Nature of Money Laundering

Mohsin (2013) contends that money laundering has been in existence within the society where it has been experienced through illegitimate or illegal financial transactions. Globalization and advancements in technology have led to sophistication of money laundering and has enabled it to operate internationally (Mohsin, 2013). The massive flows of money brought by global money laundering damages stability of the financial sector and places significant costs on the world economy through promotion of poor economic policies. This leads to erosion of public confidence in the international financial system and the legal order in less stable financial markets or institutions. As a result, there is reduction in the growth rate of the world and national economy and increase in the local costs of living (Pavlovic & Bosckovic, 2015; Omar, Johari & Mohamed, 2016).

Money laundering poses the threat of funding international terrorism and transnational criminal activities and also enables widespread crime and corruption through organised criminal groups and enterprises (Mohsin, 2013). The crime is therefore a threat to the society especially due to association with the predicate crimes such as drug smuggling, human trafficking and white collar crimes including fraud, tax evasion and cyber crime (Gilmore, 2011). The nature of transnational criminal organizations involved in money laundering and other organized crimes is that they are very adaptable and readily seek new areas of operations due to supply and demand. The decision to seek new areas of operations is also made because of the environment they operate in and actions from Government (Realuyo, 2015). Money laundering as a process takes place in three steps namely placement, layering and integration stages which are all connected to each other (Mohsin, 2013; Nyitrai, 2015).

The placement stage follows from the actual appearance of illicit cash and the intention to legalize the nature of assets through introduction into the financial system. It entails placing the criminal proceeds into a financial institution or using them to purchase assets by the use of intermediaries who are unknown to authorities to avoid detection. This stage is primary hence the illicit proceeds are often mixed with profits of high revenue enterprises such as casinos and shopping malls (Gilmore, 2011; Nyitrai, 2015). Layering involves concealing the illegal origins of the proceeds through a false paper trail most often made by the use of unregistered and naive persons who cannot be easily traced across borders. This makes the process of tracing and inspection of the proceeds difficult and time consuming (Nyitrai, 2015). The integration stage comprises of acquiring legalized money obtained from transactions involving the illicit funds. This money can now be safely used since its origin cannot be differentiated and it can now be transferred into other businesses hence integrated into the legitimate economic and financial system (Gilmore, 2011; Nyitrai, 2015).

2.2.2 Factors leading to Occurrence of Money Laundering

Authorities have used legislation, experience, funding of AML bodies and criminal proceedings to prevent money laundering (Pavlovic & Bosckovic, 2015). However despite these efforts, there have been concerns that money laundering continues to take place due to insufficient training offered to concerned personnel, inefficiencies of coordination, poor statistics and information imbalance which give criminals advantage over law enforcement (Pavlovic & Bosckovic, 2015). Criminals have been able to discover rational opportunities that facilitate money laundering. These include an increase in the use of rapidly advancing technology, globalization, open borders and a higher magnitude of population migration which has expanded boundaries of organized crimes over a wide geographical area. These factors have allowed people to easily communicate and transfer money around the world. Inconsistencies in law and poor consumer behavior have also made it easy for criminals to engage in money laundering but difficult for law enforcement to control it (Gilmour, 2015).

FATF estimates that the volume of money moved through money laundering is in the range of between $590 and $1.5 trillion (Raweh, Erbao & Shihadeh, 2017). This large amount of money indicates that many individuals may been attracted to participate in money laundering either directly or indirectly for benefit. Pavlovic and Bosckovic (2015) noted that money laundering involves different people within the society who may be aware or not about the crime but are all motivated by money. Participation in the crime may see them become part of a chain that acquires funds illegally, hide the source of the funds and ultimately put them into the legal economy as funds obtained legally. Among these people are professionals who through their advisory services, expertise or counseling, assist money laundering to take place successfully. In addition, criminals often influence law enforcement officers through corruption so as to carry on with the crime (Pavlovic & Bosckovic, 2015).

The crime of money laundering is motivated by the need to cleanse dirty money and hide sources of illegitimate money used to provide criminals with finances to undertake their criminal enterprises. Money laundering also occurs in order to bribe officials to avoid arrest and fund extravagant lifestyles. Criminals hide sources of illegitimate money to ensure that these proceeds are not detected, seized or used as incriminating evidence for prosecution (Lisanawati, 2016). These funds ensure that criminals can access, continue to enjoy and profit from the illegal funds acquired from the predicate crimes (Gilmour, 2015). Transnational organized criminal groups which use money laundering do not follow the law or respect sovereignty of states but possess enormous funds to enable their criminal activities. Money laundering has also been used to facilitate terrorist activities which has become a threat to nations (Realuyo, 2015; Van den Broek (2015).

2.3 Main Actors in Money Laundering

2.3.1 Actors in the Money Laundering Chain

Money laundering has always involved varied groups of people due to being international in nature (Zagaris, 1989). Mohsin (2013) states that participation at any stage of money laundering qualifies an individual to be regarded as an actor regardless of whether or not they are aware of the illicit nature of the crime. The chain of money laundering begins from the illegal acquisition of funds to concealing of sources of the money and eventually their reintroduction into the financial system as legal funds (Mohsin, 2013). The most visible actors are corporate actors who are in most cases beneficiaries of the funds. These include commercial banks, mortgage finance companies, foreign exchange bureaus, micro finance institutions, money remittances providers, insurance companies, telecommunication companies, investment banks and advisors, fund managers, stock brokers and consumer finance companies and casinos.

These institutions, professionals and establishments are expected to identify the small quantity of illegal financial flows within the larger amounts of legitimate funds through customer identification, risk assessment and reporting of suspicious transactions to the financial intelligence unit (Liss & Sharman, 2014). Some financial and credit institutions however face difficulties in ascertaining the legitimacy of funds through internal procedures hence make use of specialized private firms to perform the anti-money laundering role of surveillance and enforcement (Levi and Reuter, 2006). The specialized private firms are especially useful in overcoming difficulties brought by the need to operate over areas with jurisdictions which overlap. These firms assist banks with logistics, software and intelligence among other areas of support. Examples are World-Check and the Association of Certified Anti-Money Laundering Specialists (ACAMS).

World-Check has a database with names of individuals, firms and countries that are being sanctioned for money laundering. ACAMS is a for-profit firm that awards certification to individuals including Government officials and personnel from private firms qualified to offer anti-money laundering services (Liss & Sharman, 2014). Another group of actors in money laundering are the legal and fiscal service providers including professionals such as lawyers, tax advisors, accountants and company secretaries. Close to this group are the Designated Nonfinancial Business and Professions (DNFBPs) and non-legal professions comprising of company service providers, real estate agents, dealers of precious metals and stones, jewelers and car dealers (Omar *et al.*, 2016).

Mohsin (2013) notes that beneficiaries of money laundering and launderers themselves vary between obvious perpetrators comprised of drug dealers, politicians, dictators and terrorists to the unexpected group that includes diplomats, bankers and religious authorities. In certain jurisdictions where transnational money laundering occurs, organized criminal groups are usually involved since their operations are unimpeded by territorial borders. These groups provide illegal goods and services in a planned, continuous and business-like manner the proceeds of which are subjected to money laundering in order to be legitimized (Mohsin, 2013). At the other end of the continuum are law enforcement officials led by police officers whose role is to obstruct, prevent, detect and prosecute the crime (Pavlovic & Bosckovic, 2015).

2.3.2 Methods of Money Laundering

Criminals utilize varied methods to launder money obtained from illegal sources to introduce it into the legitimate economy (Omar, 2016). The primary goal of these businesses is to provide cover the illicit funds being deposited. In cash intensive businesses, large amounts of illicit funds can undergo money laundering. The businesses aim for use of cash by targeting customers, service provision and reducing overheads. Examples of cash intensive businesses are restaurants, nightclubs, fast food outlets and general car repair workshops among others. Another method that is used for money laundering is purchasing of high value portable commodities which can be easily sold immediately or later. In this way, proceeds obtained from their sale will be regarded as legitimate. Examples of high value items include precious metals, antiques, artwork, diamonds, jewellery and gold (Omar, 2016).

A third method used by criminals to hide the origins of illicit funds and introduce the money into the legitimate financial system is Trade based money laundering (TBML). The scheme involves misrepresentation of quality, quantity or price of goods being sold locally or outside the country (Miller, Rosen & Jackson, 2016). TBML takes place through a number of techniques including under or over invoicing of goods and services below or above market value. In this way, funds are shifted to the recipient of goods or to the exporter respectively. Secondly, TBML takes place through invoicing of goods and services a number of times which is complicated further by using several financial institutions to make the payments to avoid detection. A third way through which TBML takes place is by shipment of goods and services at above or below the real quantities. Parties may sometimes collude not to ship anything but go ahead and make declaration to the contrary. Money launderers also falsely describe goods and services in terms of quality or type of good or service to create a discrepancy in value (Miller *et al.,* 2016).

2.4 Extent to which the Financial Reporting Centre has succeeded in Combating Money Laundering

2.4.1 Strategies used by Supervisory Bodies to Combat Money Laundering

Omar *et al.* (2016) holds that investigation and prosecution of money laundering cases is extremely hard as a result of a series of transactions which are complex in nature. The United Nations Convention against Transnational Organised Crime of the year 2000 binds states into adopting legislative and other measures to strengthen the fight against money laundering (Jakulin, 2015). As an inter-Governmental policy making body, FATF was formed in order to foster cooperation and coordination in combating money laundering, terrorism financing and other issues that threaten integrity of the international financial system (Wilke, 2008). Apart from ensuring adherence to its recommendations, FATF achieves its goal by setting AML/CFT standards and promoting legal, regulatory and operational reforms (Sohraby *et al.,* 2016). In other areas of the world, the goals and objectives of FATF are shared by FSRBs at the regional level while FIUs operate nationally to combat money laundering, terrorist financing and financing of proliferation of weapons.

There are nine FSRBs established across the globe with four situated in Africa which together with FATF make up the global network to counter money laundering, terrorist financing and financing of proliferation of weapons. These include the Asia/Pacific Group on Money Laundering (APG) based in Sydney Australia, Council of Europe Anti-Money Laundering Group (MONEYVAL) based in Strasbourg France and the Caribbean Financial Action Task Force (CFATF) based in Port of Spain, Trinidad and Tobago. Others are Eurasian Group (EAG) based in Moscow Russia, Eastern and Southern Africa Anti-money laundering Group (ESAAMLG) based in Dar es Salaam Tanzania and Central Africa Anti-Money Laundering Group (GABAC) based in Libreville, Gabon. There are also the Latin America Anti-money laundering Group (GAFILAT) based in Buenos Aires Argentina, West Africa Anti-money laundering Group (GIABA) based in Dakar Senegal and Middle East and North Africa Financial Action Task Force (MENAFATF) based in Manama Bahrain. The Egmont Group is another FRC's affiliation formed by FIUs in 1995 for purposes of international cooperation in areas of exchange of information, training and sharing of expertise (FRC, 2015).

Established under section 21 of POCAMLA, FRC aims to identify proceeds of crime and combating money laundering. It achieves this by analysing financial institution reports and providing intelligence to law enforcement agencies, and also collaborating with other FIUs (FRC, 2017). The role played by FRC and its effectiveness is important since Kenya has been losing an average of Sh40 billion annually since the year 2011 from illicit money flows as a result of non payment of tax by local firms and multinationals. Africa also loses at least $50 billion to illicit money flows obtained from illicit trade. These increases in the flows of illicit money can be attributed to corresponding increases in illicit trade (Amandula, 2017). The lost revenues and increased illicit trade adversely affect the level of economic development and lead to an unsatisfactory international image of the country and Africa in general. FRC has been seeking to reverse this through playing a leading role in identification of the proceeds of crime and combating money laundering (FRC, 2017).

In Section 23 and 24 of POCAMLA, FRC is mandated to assist in the identification of the proceeds of crime and in combating money laundering and the financing of terrorism. FRC is also mandated to share information on one side with investigating authorities and supervisory bodies, and on the other with similar bodies in other countries. FRC is further mandated to ensure compliance with international standards and best practices in anti-money laundering measures. To achieve its objectives, FRC receives analyses and interprets reports of usual or suspicious transactions made by financial institutions. Under sections 44 to 47 of POCAMLA, FRC ensures that financial institutions monitor and make reports on customer transactions, verify customer identity or conduct due diligence and maintain internal reporting procedures.

FRC is also allowed under sections 114-120 of POCAMLA to benefit from and assist other countries in investigations and proceedings related to money laundering and the financing of the terrorism (POCAMLA, 2009). The act in Section 54 provides for recovery of assets from proceeds of crime or benefits obtained from the predicate offences in money laundering. Depriving criminals of these illegitimate funds reduces money laundering activities and the illicit crimes from where the funds were originally derived. This prevents criminals from using the illicit funds for further criminal activities. FRC collaborates with law enforcement agencies to establish audit trails and evidence to assist in prosecution of offenders while apprehension of criminals ensures that convicted money launderers are punished (Jurka, 2015; Van den Broek, 2015).

2.4.2 Experiences of the FRC in Combating Money Laundering

The FRC Statistical Analysis Report of 2017 shows that since the inception of its operations in 2012, FRC has registered a total of 289 reporting institutions or entities ranging from those regulated by the Central Bank of Kenya, the Insurance the Regulatory Authority, the Capital Markets Authority and also telecommunication companies. Between 2012 and 2016 (and part of 2017), FRC has received 4574 suspicious transaction reports **(**STRs) from the reporting entities, majority (84.7 %) being received from commercial banks (FRC, 2017a). The mode of money transaction in the STRs in a descending order of frequency included money transfers, cash deposits, money laundering, cash withdrawals and cheque deposits. There were a large number of transactions where the customers were reported for not transacting in their accounts or were wanted by Interpol or were suspected to be associated with terrorists (FRC, 2017b). Out of all the 4574 reports received between 2012 and 2016 (and part of 2017), 494 reports have been fully analyzed with 52 reports being closed for not revealing any criminal activity, 442 reports were disseminated to various law enforcement agencies for further investigation and action while the remaining 4080 reports are at various stages of analysis. From the 442 reports disseminated to the Law Enforcement Agencies, 175 were disseminated to Directorate of Criminal Investigation (DCI), 123 to Ethics and Anti-Corruption Commission (EACC) and 144 to National Intelligence Services. Joint investigations were with Kenya Revenue Authority for cases related to tax evasion and Asset Recovery Agency for cases with an urgent of tracing assets (FRC, 2017b).

The feedback received from DCI indicates that the 175 reports were merged into 95 cases whereby 10 cases were referred to the DPP, 14 were referred to Anti-Terrorism Police Unit (ATPU), 13 are pending before court, 9 have been closed and 49 are pending under investigations. The feedback from EACC shows that one case is before court while the other ware at different stages of investigation. The possible criminal activities emanating from STRs were led by terrorism (45%) and corruption (25%) while others included fraud, drug trafficking, theft, smuggling, poaching, money laundering, forgery and theft. A total of Kshs 20,493,197,158 was involved from the 442 STRs analyzed and disseminated. FRC also exchanges information with domestic law enforcement, domestic regulatory bodies and foreign Financial Intelligence Units (FIUs) (FRC, 2017b).

2.5 Underlying obstacles to Prevention of Money Laundering

2.5.1 Ineffective implementation of Anti-Money Laundering Regulations

Banks and other financial firms face the challenge of distinguishing the illicit transactions among many legitimate financial flows (Levi & Reuter, 2006). Criminals exploit the size and complex nature of the international trade and finance system to hide illicit transactions through numerous foreign exchange transactions and different arrangements in trade financing (FATF, 2006). Globalisation, advancement in technology and modern ways of conducting business or instantaneous forms of money transfer such as mobile and electronic money transfer, ecommerce, internet and mobile banking have also made enforcement more difficult (Kohalmi & Mezei, 2015). Sophistication has also enabled criminals to easily avoid monitoring mechanisms while large volumes and high speeds of transactions have posed a challenge to monitoring (Gelemerova, 2011). Custom agencies may also be unable to detect suspicious trade transactions due to inadequate resources (FATF, 2006).

The definition of money laundering under section 3 of POCAMLA is wide but fails to specify the circumstances under which it can be ascertained that a person may know or ought to have reasonably known that property is or forms part of the proceeds of crime. Due to this shortcoming in the definition, it has been difficult to prove before court that a suspect is related to a money laundering offence. Similarly, the provisions in section 4 are difficult to ascertain since knowledge of property to be or to form part of proceeds of a crime can be challenged in court. In regard to the offence of tipping off under section 8, it is also difficult to ascertain that a person may have had knowledge of a report being prepared or had disclosed information to another person.

In Kenya, the reporting threshold has been set at USD 10,000 regardless of whether or not the transactions are suspicious. Due to the low threshold, numerous transactions are reported. Many reporting institutions such as casinos, estate agents and small accounting firms also lack proper guidance on how to carry out their obligations to comply with POCAMLA (Doshi, 2015). The biggest challenge to institutions is how to balance client relationship with compliance to reporting obligations. Reporting institutions carrying out due diligence may also be presented with forged identification documents which cannot be of assistance when required (Doshi, 2015).

2.5.2 Ineffectiveness of Financial-Sector Supervision

Verhage (2010) notes that collection of data on the occurrence of money laundering, amounts involved, prevention, prosecution and conviction among others in AML has proven to be difficult in the past. This is in spite of confirmation that information plays a central role in dealing with money laundering. It is not possible for reporting institutions to know the efficiency and effectiveness of the anti-money laundering (AML) system due to lack of access, transparency and feedback on the reports by the supervisory institution. As a result, there is only blind reporting and uncertainty on the quality of the reports. Financial institutions will also not be able to know the importance of their reports, lack incentive and fail to improve in their role all of which lead to an ineffective system due to lack of information. Institutions will only be interested in complying with the law in order to avoid sanctions rather than be concerned with the quality of reports (Vesterhav, 2010). The consequence for lack of empirical research on the effects of the AML systems has resulted into problems for obtaining access to statistical information from the authorities perhaps due to unfavorable attitudes (Verhage, 2010). There is also no evidence that the supervisory agencies are monitoring whether or not reporting institutions are reporting what they should be reporting (Doshi, 2015).

Among the drawbacks to POCAMLA is that under Section 25 (d), FRC does not have powers to prosecute offenders but is required to report to law enforcement agencies which are required to investigate independently before taking action. This process is lengthy and leads to delays in achieving FRC objectives. POCAMLA allows FRC to cooperate with other countries but according to Liss and Sharman (2014), where jurisdiction and sovereignty claims overlap, enforcement efforts have been difficult. This is because large financial institutions operate globally but state agencies face jurisdiction and sovereignty challenges which may result in disagreements between states on regulation of assets or cases. Ordinarily this challenge can be addressed by negotiation and mutual assistance but it is private AML firms fill this vacuum. Organisations such as World-Check and ACAMS have taken an important space in setting AML standards through training and practice (Liss & Sharman, 2014). A supervisory body like FRC may also face resource challenges such as loss of key personnel to the private sector (Godefroy, Lascoumes and Favrell-Garrigues, 2012).

2.6 Theoretical Framework

This study made use of Rational Choice Theory, Routine Activity Theory and Deviance Theory (strain theory) to explain the relationship between factors that affect effectiveness of the Financial Reporting Centre and prevention of money laundering.

2.6.1 Rational Choice Theory

The leading proponents of this theory were Talcott Parsons (1937) and James Coleman (1986). Talcott Parsons regarded action as rational as far as it pursues the possible ends within the conditions of the situation. This pursuit is by the means chosen by the actor from all those available and are regarded to be intrinsically best adapted to the ends. The actor knows the facts of the situation that involve him and what he needs to do to achieve his goals (Wallace, 1969). This is a cost-benefit analysis done by criminals in which easy, rewarding and safe or less risky crimes are preferred which reveals careful thinking and sensible decisions on the part of criminals (Ainsworth, 2002; Tilley, 2009). Coleman regards purposeful actions by persons to be directed towards a goal which is desired for its values and preferences (Ritzer, 1992). Rational Choice Theory explains how criminals weigh the risks of apprehension and extent of punishment versus the potential gains they may likely derive from being involved in criminal activities. Criminals involved in money laundering therefore make a personal choice on whether to commit the crime based on the available opportunities and risks.

2.6.2 Routine Activities Theory

Routine Activities Theory holds that when there is a motivated offender who is knowledgeable about the crime and there is a suitable target while capable guardians are absent, then crime is more likely to occur (Felson, 2002; Eck, 2003). According to the theory, an offender is also predisposed to acting on his own criminal inclinations. Once sufficiently motivated to commit a crime, offenders locate suitable targets having four qualities that contribute to the offender's choice of selection. These are; value, inertia, visibility and access. In money laundering, criminals seek to convert illicit money gained from predicate offences, into legitimate funds for further benefit. Modern business methods, technological advancements and modern ways of conducting business enable money to be transferred instantaneously without detection. By possessing illegitimate money obtained from predicate offences, criminals are sufficiently motivated by the desire to spend this money once it is laundered and becomes legitimate. Financial institutions may seek to comply with AML regulations but criminals still find a way to circumvent these efforts through use of technology, modern ways of conducting business and even collusion with others who occupy positions of knowledge or influence. Examples are the institutions' employees, accountants, investment advisors, fund managers and stock brokers.

2.6.3 Theory of Deviance (Strain Theory)

The main proponent of this theory was Robert Merton (1968) who regarded human needs and desires as primarily the product of a social process called cultural socialization. This means that cultural values in society determine human needs and desires. Merton in his Theory of Deviance, identifies a mismatch between culturally prescriptive means and socially prescriptive goals referred as social strain which results to deviant behavior. The chronic discrepancy between cultural promises and structural realities may lead to violations of norms. When people experience social strain, they seek to address it in different ways which may result to anomic behavior. Merton explains that individuals adapt to these environmental pressures or strains through several ways;

1. Conformity: where both the cultural goal and institutionalized means are accepted. This is a non-deviant person who despite environmental pressures accepts and strives for the goal of material success by following institutionalized means.
2. Innovation: where the cultural goal is accepted but the institutionalized means are rejected. Such a person will create or use other means to achieve the goal.
3. Ritualism: where the cultural goal is rejected or abandoned but the institutionalized means is accepted and becomes an end in itself.
4. Retreatism: where both the cultural goal and the institutionalized means are rejected. The individual escapes from environmental pressures of the society and becomes for example an outcast, drunkard or drug addict.

5. Rebellion: where both the cultural goal and institutionalized means are rejected but substituted with a new goal or means. This refers to political deviants who attempt to change the structure of society.

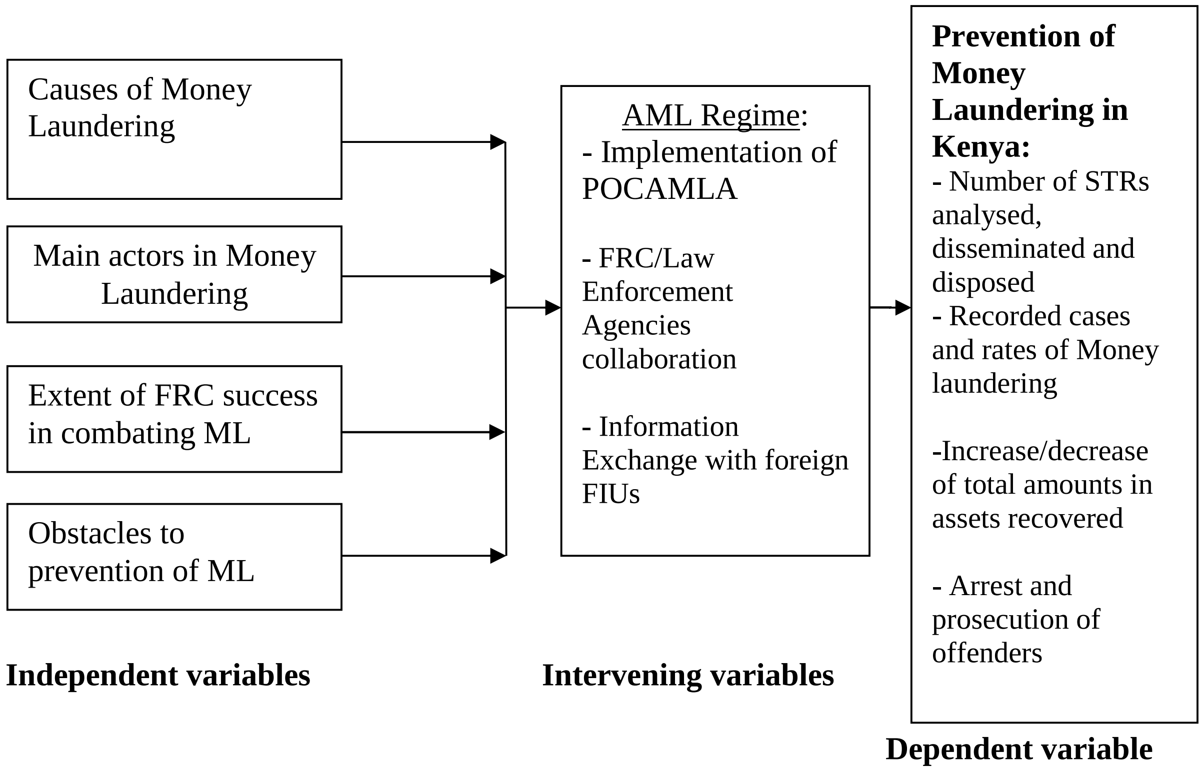
The Theory of Deviance therefore explains how actors are involved in the money laundering process through roles, responsibilities and interactions. Actors perpetrating money laundering are faced with social strain by accepting the socially prescriptive goals for success but reject the culturally prescriptive means for legitimate business transactions. This results into the deviant behavior by actors through money laundering.

2.7 Conceptual Framework

Figure 2.1 below explains the Factors affecting the Financial Reporting Centre and Financial Institutions in prevention of Money Laundering in Kenya. Figure 2.1 which is the conceptual framework represents the relationship between the dependent variables and the independent variables. The dependent variable is prevention of Money Laundering which is operationalized in terms of the number of STRs analysed, disseminated and disposed; recorded cases and rates of Money laundering; amount of assets recovered; and arrest and prosecution of offenders for money laundering offences. The intervening variable is the mechanism through which FRC and Financial Institutions prevent Money Laundering. This includes implementation of POCAMLA, collaboration between FRC and law enforcement agencies collaboration and exchange of information between FRC and domestic law enforcement, domestic regulatory bodies and foreign Financial Intelligence Units.

The independent variables are Factors affecting the Financial Reporting Centre and Financial Institutions operationalized as causes of money laundering, main actors in money laundering, extent to which the Financial Reporting Centre and Financial Institutions have succeeded in combating money laundering and the underlying obstacles to the prevention of money laundering in Kenya.

Figure 2.1: Factors affecting the Financial Reporting Centre and Financial Institutions in prevention of Money Laundering in Kenya



2.8 Definition of Key Terms

Affect: the process by which certain factors influence or have an effect on Financial Reporting Centre and Financial Institutions as regards Money Laundering.

Factors: circumstances, fact or influence that contributes to a result such as Money laundering.

Money Laundering: the way by which the real source of illegally acquired money is concealed to obscure the link between the funds and the original criminal activity.

Prevention: the process by which the Financial Reporting Centre and Financial Institutions stops or reduces the occurrence of Money laundering by achieving objectives and solving problems.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter looks at the methods that were used to collect data in the study and outlines the study area, research design, sample design and the method of data collection and analysis which were used.

3.2 Study Area

The study area under consideration was the Financial reporting centre and financial institution namely commercial banks, forex bureaus and money remittances. These financial institutions which have been reporting many suspicious transactions reports to financial reporting centre. FRC combats money laundering by analysing reports from registered financial institutions, disseminating intelligence to law enforcement agencies and exchanging intelligence on money laundering with foreign FIUs. FRC operates under POCAMLA since 2012 and has experienced both successes and obstacles in the prevention of Money Laundering in Kenya. FRC is situated in CBK Pension House along Harambee Avenue in Nairobi and comprises of 22 personnel drawn from CBK and law enforcement agencies including Directorate of Criminal Investigations and National Intelligence Services.

3.3 Research Design

This was a case study of the FRC and financial institutions which also utilized Survey design to obtain information from a cross section of respondents by using a questionnaire. The design allowed for collection of both qualitative and quantitative data through the subjective assessment of the respondents' attitudes, opinions and behavior, and inference from the population (Kothari, 2004). The case study approach focuses on the understanding the dynamics present within single settings or few entities such as people or groups. They also facilitate an in-depth understanding of the situation and meaning of the subject (Yin, 2003)**.** The sources of primary data were FRC staff and anti-money laundering officers from financial institutions while additional information was obtained from key informants from FRC, financial institutions and law enforcement agencies.

3.4 Unit of Analysis and Unit of Observation

The aim of this study is to examine factors that affect the Financial Reporting Centre and financial institutions in prevention of money laundering in Kenya. The unit of analysis is that which the researcher wishes to study, understand or explain while the unit of observation is the element or aggregation of elements from which information is collected (Singleton *et al*, 1988). The unit of analysis for this study is factors that affect the financial reporting centre and financial institutions in prevention of money laundering in Kenya. The units of observation were the staff at the FRC and financial institutions within Nairobi City County. Also included as units of observation were the key informants which were purposefully selected from FRC, financial institutions and law enforcement agencies.

3.5 Target Population

Target population or universe of the study refers to all members of real or hypothetical set of people, events or objects from which a researcher wishes to generalize the research study (Borg & Gall, 1989). The target population for this study was personnel at the financial reporting centre and staff from financial institutions. These institutions had a total of 158 anti-money laundering officers constituting the personnel at the time of this study.

3.6 Sample Size and Sampling Procedure

3.6.1 Sample Size

A sample refers to a small group of individuals drawn from an entire group or accessible population all of whom have a common observable characteristic (Mugenda & Mugenda, 1999). Sampling is therefore a process of selecting a sample from a population to become the basis for predicting the prevalence of an unknown piece of information, situation or outcome regarding the population (Kumar, 2005). Stratified random sampling was used in selecting the main respondents from FRC and financial institutions. The simplified formula by Yamane (1967) was used to calculate the sample size from FRC and financial institutions namely commercial banks, forex bureaus and money remittances as follows;

$n = N/ (1+Ne^2)$

Where n represents the sample size, N is the target population and e is the margin of error. The target population (N) and sample size n was calculated from the summation of populations and sample sizes in FRC and financial institutions namely commercial banks, Forex bureaus and Money remittances respectively. These are shown in Table 3.1 below.

Table 3.1: Target population and Sample size

Institutions	**Type**	**Population**	**Target**
FRC	FRC	22	11
Financial institutions	Commercial banks	44	22
	Forex bureaus	78	40
	Money remittances	14	7
	Total	**158**	**80**

To enrich the information received from the main respondents, we purposefully selected seven key informant based on knowledge and experience from FRC, financial institutions and law enforcement agencies.

3.6.2 Sampling Procedure

Stratified random sampling was used in selecting the main respondents from FRC and financial institutions namely commercial banks, forex bureaus and money remittances. The respondents were then selected from each of these institutions according to the sample size calculated using the simplified formula by Yamane (1967). The number of respondents required from each institution was systematically selected by identifying the K^{th} individual in the selection interval. The list of employees from which respondents were selected exists in each of the four types of institutions. Key informants were then selected by purposeful sampling method based on knowledge and experience from FRC, financial institutions and law enforcement agencies.

3.7 Methods of Data Collection

3.7.1 Collection of Quantitative Data

The study utilized both primary data and secondary data with the former including both quantitative and qualitative data. The quantitative data was collected through the use of a questionnaire containing both structured or closed ended questions and unstructured or open ended questions. Closed ended questions were used to capture opinions and comments on specific issues from the main respondents totaling 80. The researcher personally administered the questionnaires to the respondents who filled them by themselves. The questionnaires were then collected after filling on the same day or on a later date agreed upon with the respondents.

3.7.2 Collection of Qualitative Data

Qualitative data was also collected using a key informant guide which contained unstructured or open ended questions. Open ended questions were used to obtain in-depth knowledge and insight as well as personal experiences and observations from the 7 key informants. The interview schedule was administered by the researcher and collected on the same day or at a later date decided with the research participants. Secondary data was collected from published and unpublished documents such as Government reports and electronic websites.

3.8 Ethical Considerations

After receiving an introductory letter from the University of Nairobi, the researcher ensured that respondents signed a consent form to show that their participation in the study is voluntary. Each questionnaire was accompanied by a consent form and an introduction letter which informed and assured the respondents that the study was only for academic purposes. Confidentiality of all information was also observed by using questionnaire coding and observing that the use of information was only for academic purposes.

3.9 Data Analysis

The quantitative data to be collected from the completed questionnaires was edited to correct errors and omissions. The data was then placed in categories by coding then tabulated and counted. To analyze the quantitative data, percentages and frequency distributions which are descriptive statistical tools were used. This data was then presented in tabular form. The researcher organized and analyzed the data by using SPSS computer package for data processing. The qualitative data was also edited and cleaned up then put in categories, themes or patterns for coding purposes. The data was then analyzed by content analysis. Both the quantitative and qualitative data was then interpreted by the researcher and presented as research findings.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

The main purpose of this study was to examine factors that affect the Financial Reporting Centre and financial institutions in prevention of money laundering in Kenya. This chapter reports on the results of analysis of data covering the respondents' background information, causes of money laundering and the main actors in money laundering in Kenya. The chapter also looked at the extent to which FRC and financial institutions have succeeded in combating money laundering and the underlying obstacles to the prevention of money laundering in Kenya.

4.2 Background Information

This section presents the background information of the respondents including their demographic data such as age, gender and level of education. Other details such as levels of training, organization, designation and duration of work in organization

4.2.1 Gender of the respondents

Most of the respondents (70%) were male while the rest (30%) were female which is attributed to the professions in law enforcement and related roles in anti-money laundering attracting mostly the male gender.

Table 4.1: Gender of Respondents

Age	Frequency (n)	Percent (%)
Male	56	70.0
Female	24	30.0
Total	80	100.0

4.2.2 Age of the respondents

A large number of respondents (45%) were between 32-38 years followed by those between 39-45 years represented by 23.8%. The rest of the respondents were 17.5%

(above 45 years) and 13.7% (25-31 years). These results showed that personnel working in the FRC and financial institutions namely commercial banks, forex bureaus and money remittances are middle aged with work experience, knowledge and qualifications for combating money laundering.

Table 4.2: Age of Respondents

Age	Frequency (n)	Percent (%)
25 -31 years	11	13.7
32-38 years	36	45.0
39-45 years	19	23.8
Above 45 years	14	17.5
Total	80	100.0

4.2.3 Level of Education

The highest level of education for most respondents was Masters Degree (56.3%) followed closely by Bachelors degree (43.7%). The roles in prevention of money laundering require personnel who are well educated and equipped with knowledge and qualifications which are only acquired through higher levels of education.

Table 4.3: Level of Education of Respondents

Level of education	Frequency (n)	Percent (%)
Masters	45	56.3
Bachelors	35	43.7
Total	80	100.0

4.2.4 Level of Training

Similarly, most respondents indicated that they had received very high levels of training (41.3%) followed by high levels of training (32.5%) and moderate levels of training (26.2%). Prevention of crimes in general and including money laundering needs personnel with adequate and up-to-date knowledge and skills which the organizations strive to offer to their personnel.

Table 4.4: Level of Training of Respondents

Level of training	Frequency (n)	Percent (%)
Very high	33	41.3
High	26	32.5
Moderate	21	26.2
Total	80	100.0

4.2.5 Work Institution

The respondents were drawn from various organizations including Forex bureaus (50%) and Commercial banks (27.5%), Staff of FRC (13.8%) and Money remittances covered (8.7%). These results correspond to the target population that participated in the study or the main respondents.

Table 4.5: Work Institution of Respondents

Organization	Frequency (n)	Percent (%)
Forex Bureaus	40	50.0
Commercial Banks	22	27.5
FRC	11	13.8
Money Transfer outlets	7	8.7
Total	80	100.0

4.2.6 Work Designation

The work designations of the respondents were mainly Anti Money Laundering compliance and Ethics personnel (43.7%), Officers (23.8%), Anti Money Laundering Analysts (18.7%) and Financial Crime and Risk Analysts (13.8%). These results show that all the respondents were drawn from positions responsible for prevention of anti-money laundering activities in Kenya.

Table 4.6: Designation of Respondents

Designation	Frequency (n)	Percent (%)
AML Compliance and Ethics personnel	35	43.7
Officers	19	23.8
AML Analysts	15	18.7
Financial Crime and Risk Analysts	11	13.8
Total	80	100.0

4.2.7 Duration at Organization

A large number of the respondents (37.5%) had worked for the current organization for a period of over 13 years followed by those who had worked for between 7 and 9 years (30%) and those who had worked for between 10 and 12 years (23.8%). Just 6.2% of the respondents indicated that they had worked for their employer for a period of between 4 and 6 years while only 2.5% of the respondents had worked for the current employer for between 1 and 3 years. It can be deduced that personnel responsible for the prevention of money laundering are experienced having worked for extended periods of time in order to gain knowledge and expertise at work.

Table 4.7: Duration at current Institution

Duration	Frequency (n)	Percent (%)
Over 13 years	30	37.5
7-9 years	24	30.0
10-12 years	19	23.8
4-6 years	5	6.2
1-3 years	2	2.5
Total	80	100.0

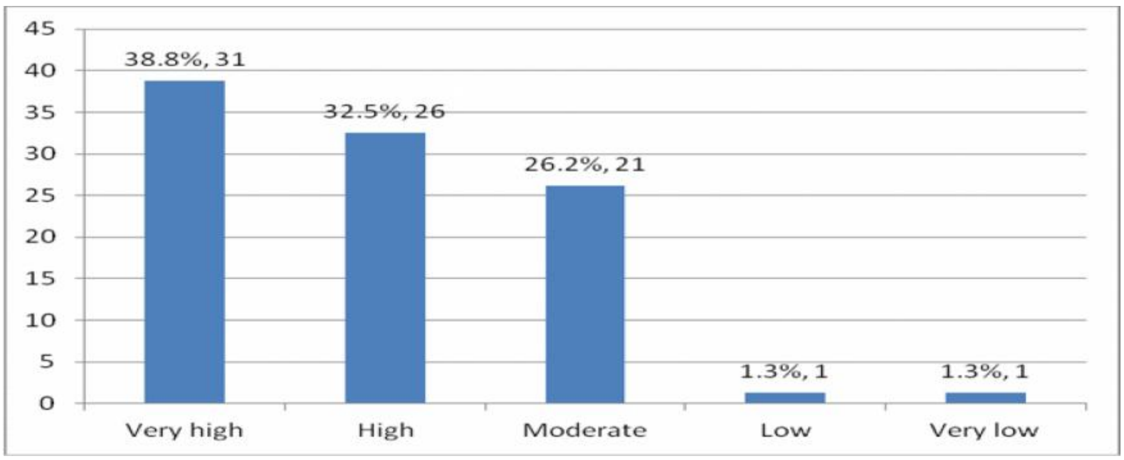
4.3 Causes of Money Laundering in Kenya

This section discusses the causes of money laundering in Kenya including types and levels of training, and factors leading to prevalence of money laundering.

4.3.1 Level of Training in Anti Money Laundering

A large number of respondents indicated that the level of training that they had undergone was very high (38.8%) followed by those who indicated that the levels of training in anti money laundering were high (32.5%) and moderate (26.2%). It can be deduced that FRC and financial institutions regard imparting skills in anti money laundering to personnel as important. This is because the crime of money laundering is a challenge and threat to the country's financial sector and the economy, while prevention requires high levels of training. These results are shown in Figure 4.1 below.

Figure 4.1 Levels of Training in Money Laundering



4.3.2 Training received in Anti Money Laundering

The respondents indicated that financial institutions and FRC have made efforts to offer a wide range training programs to their staff in order to equip them with skills and knowledge for preventing and detecting money laundering.

"We are trained internally by our employers and we also attend external training courses offered by expert organizations".- Nguu B.K Senior Analyst - Equity bank

The study found that internal or in-house training offered by employers included first on the job-training in Anti-Money Laundering and Counter Financing of Terrorism (CFT) in the Banking Sector. Second was training on AML and CFT organized by the regulator (CBK), Kenya School of Monetary Studies, Financial Reporting Centre, Kenya Institute of Bankers, Capital Markets Authority and IMF. It was also found that respondents attended external training by other financial institutions other than the employer. Third was AML and Financial Crime workshops/seminars organized by correspondent banks, market players, industry expert compliance professionals and international partners such as Standard Chartered Bank Academy, Western Union, Citi Bank. Fourth was AML certification or specialist courses such as Financial Reporting Centre, Kenya Institute of Bankers, Capital Markets Authority and IMF. It was also found that respondents attended external training by other financial institutions other than the employer.

"The training I have attended contained introduction to FAFT recommendation and FRC regulations, general introduction on Anti-Money laundering and Terrorist financing, supervision over Forex Money Transfer offices by CBK, general introduction to criminal and civil asset forfeiture, and reporting of designated non-financial business and professions (DNFBPS)." – Alianda B.M. AML Compliance – Equity bank.

Most of the respondents therefore indicated that they have received extensive training in money laundering both from within their organizations and from external experts and institutions.

4.3.3 Factors leading to Prevalence of Money Laundering

The study sought to establish the respondents' opinion on factors leading to prevalence of money laundering. The respondents were asked to rate the extent to which the factors led to prevalence of money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.8 Factors influencing Money Laundering

Factors	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Inadequate training	45.4	16.9	27.3	10.4	77	3.65
Globalization	39.5	51.3	9.2	-	80	3.66
Improvements in communications	38.3	38.3	23.4	-	80	3.31
Spread of international banks	23.9	33.5	24.2	18.4	80	3.00
Technological innovation	49.3	37.3	9.2	4.2	80	3.69
Inefficiencies in coordination among stakeholders	30.3	51.3	18.4	-	80	3.61
Poor statistics and information imbalance	35.5	36.9	27.6	-	76	3.16

From the findings, one can conclude that the most important factors which were considered to be influencing money laundering to a great extent include "Technological innovation" (highest mean of 3.69), "Globalization" (mean of 3.66) and "Inadequate training" (mean of 3.65). These results show that technological innovation has enabled criminals to easily communicate and transfer money around the world. Globalization has opened borders and expanded boundaries for money laundering to take place widely while inadequate training has given criminals advantage over financial services providers and law enforcement. The rest of the factors also have higher means of above 3.00 which indicate that factors they have made it difficult for financial services providers and law enforcement to control money laundering. The factors include inefficiencies in coordination among stakeholders, improvements in communications, poor statistics and information imbalance, and spread of international banks.

4.3.4 Prevalence of Money Laundering

When the respondents were asked to explain how the factors have led to prevalence of money laundering, some indicated that technological innovation advances and rising demand for real-time payments and transfers are making it easier for money launderers to perform criminal activities. They have money laundering vulnerabilities and have led to increased money laundering risks. Potential risk areas which can be exploited by money launderers include use of new payment methods such as internet payment systems, mobile payments, Fintech and crypto currencies provide rapid transfer, ease of movement of money, anonymity, substitution for bulk cash and global access to dirty cash from various points or platforms which makes them attractive to money launderers.

Globalization through rapid developments in financial information, technology and communication has led to new typologies of laundering while allowing criminals and dirty money to move anywhere in the world with speed and ease. Globalization has opened up the local market to international money launderers and organized crime but has made prevention of money laundering difficult. Inadequate training may cause actors in money laundering not be able to detect, prevent and prosecute new trends or sophisticated money laundering schemes. Inadequate training may lead to main actors not knowing their roles hence there’s lack of exposure to emerging AML risks and national AML/CFT. It will then be hard to combat money laundering.

This may in some instances be due to lack of commitment by management to provide resources and training to combat AML/CFT risks. Employees may not be able to detect money laundering or know what to do if they encounter potential money laundering cases especially new typologies or sophisticated laundering schemes. Lack of adequate AML controls by financial institutions and failure to have local regulations that require professional qualifications for staff managing these risks may expose them to financial crime risk. In this way, the organizations are ill prepared to deal with money laundering. However, bankers are the best trained especially Money Laundering Compliance Officers or Money Laundering Reporting Officers (MLCOs or MLROs).

"Employees and other stakeholders need to be trained background and definition of Money Laundering, the laws related to it (POCAMLA & Prevention of Terrorism Act, POTA), penalties involved, red flags, their role and how to respond to potential money laundering activity among others. - Namayi D. Compliance Manager- DIB bank.

Inefficiencies in coordination among stakeholders may lead to poor or delayed investigations and non detection of money laundering cartels. Poor information sharing between financial institutions, regulatory bodies and law enforcement agencies may limit ability of reporting institutions to put in place effective AML/CFT systems and controls. Inefficiencies in coordination hampers investigations into money laundering such as obtaining of evidence, location of persons, obtaining of documents and records and search and seizure of assets. Lack of coordination among stakeholders may also lead to poor statistics and information imbalance thus derailing the efforts of combating money laundering.

Improved communications has made the means of sending or receiving information to be easier and faster. Money laundering trends happening in one part of the world quickly spread to other parts while criminals can be easily tipped off early on their intended arrest. Poor statistics and information imbalance leads to non detection of suspicious transactions on time. This makes it difficult for entities to identify the current and emerging trends in money laundering. Authorities are not able to measure threats more accurately or allocate resources accordingly or consolidate cases. Consistent and comprehensive statistics facilitate a robust quantitative basis for work on the surveillance of the financial system. Financial sector and law enforcement agencies need to exchange and analyse information and intelligence to detect, prevent and disrupt money laundering and wider economic crime threats against the Kenya. Financial institutions and their associations do not have a database or share details of blacklisted customers leading to criminals continuing their operations locally and abroad.

Spread of international banks facilitates cross-border transactions by making it easy to conduct illicit financial transactions such as wiring of dirty money. Due to factors such as speed, volume of transactions, accuracy and efficiency, illicit financial flows can easily be moved across borders. Illicit funds can be sent and received easily from high risk jurisdictions. The spread of international banks has allowed criminals to move across different jurisdictions without detection. Criminals use banks to launder their ill-gotten money to make them appear they are from a legitimate source. Banks make it possible for the layering stage of money laundering to be easily done which makes it difficult to ascertain the origin of illicit money.

"Lack of integrity by staff in institutions, lack of systems for detection and failure to punish offenders adequately may also contribute to increase in cases of money laundering".- Ireri C. Manager compliance – Equity Bank

4.3.5 Role of Advisory Services and Corruption in Money Laundering

The study sought to find out the respondents' opinion on the role of advisory services by professionals and corruption among law enforcement officers in money laundering. The respondents indicated that professionals such as lawyers, bankers and accountants offering advisory services may wittingly or unwittingly give their clients information of how to launder dirty money and avoid detection by authorities by circumventing the AML/CFT laws and regulations.

"Lawyers and financial advisors may help clients to identify gaps in the law which may be utilized for money laundering. They help clients to conceal sources of money and facilitate in layering it within the economy via banks. They also advice on best ways to adopt complex arrangements to obscure identity or to challenge effective KYC. They also advice on reporting threshold by splitting transaction, structuring or by smurfing. As a result, they give legitimacy to criminal activities and enable criminals access other regulated sectors without detection enabling them to conceal and disguise large sums of criminal money. Secondly, client accounts held by professionals may be used as an entry link when purchasing real estate, setting up shell companies and transferring the

proceeds of crime. This raises difficulties for authorities to obtain supporting documentation due to client privileges and confidentiality requirements. Complicit professionals facilitate money laundering through the purchase of property with criminal proceeds, and the creation of complex corporate structures and offshore vehicles to conceal the ownership and facilitate the movement of criminal assets. They may also shield their clients once the matter has been reported to them through litigation".- Ndegwa J. Head of Compliance & Ethics – Kenya Commercial bank

"Creating and managing corporate vehicles or other complex legal arrangements, such as trusts and charities. Such arrangements may serve to obscure the links between the proceeds of a crime and the perpetrator. Second, buying or selling property which serve as either the cover for transfers of illegal funds which is layering or the final investment of proceeds after they pass through the initial laundering process, that is integration stage. Third is by performing financial transactions on behalf of the client. For example, issuing and cashing cheques, making deposits, withdrawing funds from accounts, engaging in retail foreign exchange operations, buying and selling stock, and sending and receiving international funds transfers".- Katiech F.K. Manager Risk and Compliance – Credit bank

"Providing financial and tax advice to criminals with large amounts of money to invest. They may pose as individuals hoping to minimize tax liabilities but seek to place assets out of reach of authorities in order to avoid future liabilities. These professionals may not share their experiences with their colleagues to assist in the fight against ML. Some professionals may have very poor understanding of the AML/CFT regulations which may make them vulnerable to abuse. They may fail to fulfill customer due diligence requirements, fail to ascertain source of funds or wealth or fail to gather beneficial ownership information despite absence of documented policies and procedures". – Gichora R. Head of Risk and Compliance – Guarantee Trust bank.

The study also indicated that involvement in corruption by law enforcement agencies such as police officers may play a role in money laundering.

"Perpetrators of money laundering are often wealthy or ready to spend money for their schemes to succeed. Enforcement officers investigating criminal offences may be bribed to tip off criminals instead of arresting them leading to commission of money laundering. Bribery may lead to failure to enforce money laundering laws through poor investigations, tampering with or loss of evidence and poor prosecutions of crimes leading to low convictions of individuals implicated in anti-money laundering crime. Lack of understanding of the law especially the anti-money laundering laws in Kenya and lack of knowledge to prosecute suspected money launderers assists money laundering. Criminals also bribe employees of financial and non-financial institutions so that they can succeed in their schemes".- Muthaura F.M. Senior Analyst – Kenya Commercial bank.

"Inadequate policing of international borders, hiring of guns by police to organized gangs for perpetration of predicate crimes and failure to prevent criminals from entering into new relationship with other banks lead to more cases of money laundering. Petty corruption involving payment or solicitation of bribes or other considerations to alter a decision, fact or action, specifically bribes solicited by or offered to law enforcement officials to ignore a criminal offence, not to make an arrest and not to bring witnesses or suspects to court help criminals keep illegal proceeds. This creates a wrong impression that crime pays hence making money laundering attractive". Alianda B.M. AML Compliance – Equity bank.

4.4 Main Actors in Money Laundering

This section describes the actors of money laundering including individual roles and roles of organizations in the prevention of money laundering.

4.4.1 Actors involved in Money Laundering

The respondents identified several institutions, individuals and groups as the actors involved in perpetrating or preventing money laundering. Among the perpetrators of money laundering are individuals who commit the predicate offences which result in ill-gotten money. These offences include corruption, drug and human trafficking, robbery, fraud, bribery, insider trading and counterfeiting of goods. Terrorists, poachers, pirates, organized criminal groups and tax evaders among others are also involved in money laundering. Other perpetrators of money laundering are politicians, their friends and business associates, big business persons, foreigners, corporate firms, and County and national Government officials using front companies.

The second group is the gatekeepers including professionals such as lawyers, accountants, company formation agents, company secretaries, auditors, tax advisors insiders and other financial intermediaries. They have the ability to facilitate the entry of illegitimate money into the financial system.

The third group is reporting institutions/financial institutions and money service businesses with weak anti-money laundering programs. These allow placement and layering to take place undetected and unreported. These include commercial banks, compliance professionals, designated non-financial institutions and professionals, insurance companies, forex bureaus, illegal business owners, clearing and forwarding firms, casinos, real estate dealers, money transfer service/agencies and value dealers and car dealers.

The fourth group includes parliament, regulators and bodies charged with combating money laundering. These include CBK, FRC, Assets Recovery Agency, Directorate of Criminal Investigation, Ethics and Anti- Corruption Commission, Office of the Director of Public Prosecutions, Kenya Revenue Authority, National Intelligence Service, National Police Service and Communication Authority of Kenya. Others are Insurance Regulatory Authority, Capital Markets Authority, Betting and Licensing Control Board and the NGO Coordination Board.

"Money laundering involves even unexpected groups of people such as diplomats, politicians, corporate firms, Government officials using front companies. Law enforcement agencies may sometimes be corrupt and inefficient to give way to money laundering". – Ndegwa J. Head of Compliance & Ethics – Kenya Commercial Bank.

4.4.2 Roles of Actors in Prevention of Money Laundering

The study found out the role of financial institutions is to ensure that they have a robust anti-money laundering program or AML/CFT Framework and enshrines an AML/CFT culture. They should also have to ensure systems of internal policies, procedures and controls are in place to control money laundering. The compliance function or office should be designed to deal with money laundering and train the employee on programs on AML/CFT. Lastly they should have an independent audit function to test the overall effectiveness of AML programs.

"First, a system of internal policies, procedures and controls which is the first line of defense by ensuring compliance with the laws relating to prevention of money laundering. This also includes adhering to the regulatory requirement. Second, a designated compliance function with a compliance officer which is the second line of defense. Third, an ongoing employee training program on AML/CFT and emerging trends on money laundering and terrorism financing. This includes contributing to industry initiatives to enhance AML practice.

Fourth is an independent audit function to test the overall effectiveness of the AML program which is the third line of defense. This includes conducting Money Laundering and Terrorism Financing Risk assessment of the bank's Products, delivery channels, customer and geography and offer guidance in coming up with policies that assist in mitigating risks. The role of the reporting officer is to ensure the above elements are in place, efficient and are effective. This aids in combating money laundering in my institution and in Kenya in general. In addition to the above, suspicious activities are promptly reported to the FRC for further action."- Katiech F.K. Manager Risk and Compliance – Credit bank.

Anti money laundering compliance and ethics personnel, officers, analysts and financial crime and risk analysts investigate suspicious reports and report to FRC. They monitor transactions to detect, prevent and disrupt money laundering and wider economic crime threats against the Kenya financial system by sharing financial information and intelligence with FRC. This includes conducting KYC and money laundering risk assessment based on understanding products and services and their areas of vulnerabilities. The personnel also keep up with the trends, understanding Kenya's economy and the dynamics of technological changes. These professionals offer customer information to law enforcement and report any knowledge or suspicions of money laundering to FRC through a 'Suspicious Activity Report'.

"The role of law enforcement personnel is to investigate, arrest and prosecute offenders involved in money laundering. We seize and freeze the illegally acquired assets belonging to suspects. However, the success rate in these efforts has been low."- Agnes. AML/Risk Compliance – Post bank

4.4.3 General Roles in Prevention of Money Laundering

The study also sought to find out the selected general roles by which respondents acted in the prevention of money laundering. It was established that the leading role chosen by actors was good statistics and sharing of information (91%) followed by adequate training in anti-money laundering (88%) and improved technology and innovation (78%). Other roles chosen by the actors were efficiency in coordination (71%), legislation (71%), criminal proceedings to prevent money laundering (61%), funding of AML bodies (55%) and good communication between stakeholders (53%).

Collecting and maintaining good statistics and sharing of information makes it possible to identify criminals and intercept their current or previous money laundering activities. This also allows for an update on trends and typologies in AML/CFT. Adequate training in anti-money laundering equips AML personnel, financial institutions and stakeholders with skills to prevent the crime while improved technology and innovation counters similar use of technology in new typologies by criminals. The rest of the roles are also useful in the prevention of money laundering.

4.4.4 Contribution of Organizations in Prevention of Money Laundering

The findings of the study found out that the contributions by organizations in prevention of money laundering included having an effective AML/CFT program or framework, complying with the regulator's guidelines on anti-money laundering and enforcing or abiding by the requirements of AML laws to combat money laundering. Some of these requirements include having a designated AML officer, an effective AML program comprising of risk assessment, customer due diligence, automated transaction monitoring including cross border transactions and sanction screening.

Second is providing training to staff on AML, doing proper KYC on onboarding clients and due diligence, and reporting suspicious financial transactions to authorities. Third is ensuring good communication between stakeholders in the banking industry, partnering with correspondent partners, and collaboration with regulators such as FRC and other key players at local, regional and international level to manage AML/CFT risks. Law enforcement organizations conduct investigations through identification, tracing and confiscation of proceeds of crime, and ensure prosecution of offenders including for tax evasion since they are linked to money laundering

"As a main player in the national and regional banking industry, the organization contributed to standard setting through uncompromising AML/KYC practices. Has provided practical banking insights, best practices and input into the development of regulatory broad guidelines into workable guidance notes. The CEO has chaired the AML Advisory Board and highlighted topical issues of international AML concern. The organization has led in the implementation of automated monitoring systems." – Nyanga M.M. AML Risk Analyst. Kenya Commercial bank.

4.4.5 Extent of Contributions by Institutions towards Prevention of Money Laundering

The study sought to establish the extent of contribution by institutions towards the prevention of money laundering. The respondents were asked to rate the extent by which institutions contributed towards prevention of money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.9 Contributions of Institutions in Money Laundering Prevention

Institutions	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Commercial banks	26.2	32.3	28.3	13.2	80	4.00
Micro finance institutions and Telecommunication companies	20.4	50.3	15.1	14.2	75	3.97
Mortgage finance companies & Investment banks	24.1	44.6	21.9	10.4	75	4.16
Money remittances providers and Insurance companies	36.3	32.5	31.2	-	80	4.38
Investment advisors, Fund managers and Real estate agents	30.3	44.4	20.5	4.8	77	4.25
Stock brokers and Casinos	29.2	33.3	25.3	12.2	78	4.06
Legal and fiscal service providers (lawyers, tax advisors, accountants and company secretaries)	36.3	38.4	13.1	12.2	78	4.44
Dealers of precious metals and stones, jewelers and car dealers	32.2	33.8	28.9	5.1	76	4.19
Specialized private firms (World-Check and ACAMS)	22.2	20.3	34.4	23.1	75	3.44

The findings show that the institutions which contributed the most towards prevention of money laundering were “legal and fiscal service providers” (highest mean of 4.44), “money remittances providers and insurance companies” (mean of 4.38) and “dealers of precious metals and stones, jewelers and car dealers” (mean of 4.19). All the other institutions have means above 3.97 which indicate that the organizations have contributed to a high extent in prevention of money laundering. These results show that all institutions regard money laundering as a serious risk to the financial sector and economy in general.

4.4.6 Level of Importance for Actors in Money Laundering

The study sought to establish the level in importance for actors in money laundering. The respondents were asked to rate the level in importance for actors in money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.10 Importance of Actors in Money Laundering

Actors	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Law enforcement officers	52.5	30.3	17.2	-	77	4.08
Commercial banks	65.7	22.4	11.9	-	77	4.50
Micro finance institutions and Telecommunication companies	52.7	28.9	11.7	5.8	77	4.04
Mortgage finance companies and Investment banks	28.3	60.3	6.2	5.2	75	4.00
Money remittances providers and Insurance companies	59.3	23.3	13.2	4.2	80	4.20
Investment advisors, Fund managers and Real estate agents	32.9	43.5	19.4	4.2	77	3.85
Stock brokers and Casinos	37.3	36.4	20.1	6.2	77	3.60
Legal and fiscal service providers	46.2	23.3	13.2	16.4	77	3.90
Dealers of precious metals and stones, jewelers and car dealers	39.6	42.4	12.3	5.7	80	3.95
Specialized private firms	34.7	26.6	30.8	7.9	80	3.60

From the findings, one can conclude that the actors in money laundering which were considered most important include “commercial banks” (highest mean of 4.50), “money remittances providers and insurance companies” (mean of 4.20), “law enforcement officers” (mean of 4.08), micro finance institutions and telecommunication companies (mean of 4.20) and “mortgage finance companies and Investment banks (mean of 4.20). These results show that apart from law enforcement officers, commercial banks, money remittances providers and insurance companies, micro finance institutions and telecommunication companies and mortgage finance companies and investment banks play a greater role in prevention of money laundering since they are most commonly used by criminals for money laundering. Law enforcement officers play an important role in investigations of money laundering cases and prosecution of offenders.

4.5 Success of Financial Reporting Centre and Financial Institutions in Combating Money Laundering Money Laundering

This section discusses the extent to which the Financial Reporting Centre and Financial Institutions have succeeded in combating Money Laundering.

4.5.1 Success of the Financial Reporting Centre in combating Money Laundering

A number of the respondents (65%) indicated that FRC had succeeded in combating money laundering while 35% held the opposite opinion. A robust legal framework through POCAMLA and collaborations with other institutions has made efforts by FRC to bear fruit in combating money laundering. However, data shows that FRC still faces challenges as evidenced by the high number of STRs from the reporting entities, large amounts of money involved and the many cases pending dissemination to other law enforcement institutions.

Table 4.11: FRC Success in preventing money laundering

Success	Frequency (n)	Percent (%)
Yes	51	65
No	29	35
Total	80	100

4.5.2 Perceptions on Frequency of Incidents in Money Laundering

The study findings show that 42% of the respondents indicated that the frequency of incidents of money laundering is very high followed by high (20%) and moderate (38%). These results show that the frequency of incidents of money laundering is generally high and corroborates the high number of 4574 STRs received by FRC between 2012 and 2016 and part of 2017.

Table 4.12: Frequency of money laundering

Frequency	Frequency (n)	Percent (%)
Very High	33	42
High	17	20
Moderate	30	38
Total	80	100

4.5.3 Perceptions on Volume of Money Laundering

The volume of money moved in the year 2017 by money laundering was found to be between Kshs 26 billion - Kshs 40 billion by 32% of the respondents while 25% of the respondents each indicated the volume to be either between Kshs 15 billion - Kshs 25 billion or above Kshs 55 billion. These results show that the frequency of money laundering is high and increasing and corroborates Kenya's annual loss of Sh40 billion from money laundering as reported by FRC and Amandula (2017).

Table 4.13: Volume of Money Laundering

Volume (Kshs)	Frequency (n)	Percent (%)
15 billion - 25 billion	21	25
26 billion - 40 billion	25	32
41 billion - 55 billion	13	18
Above 55 billion	21	25
Total	80	100

4.5.4 Effects of Interventions on Money Laundering

When they were asked whether incidents of money laundering have reduced, 72% and 78% of the respondents indicated that incidents of money laundering have reduced due to interventions by FRC and by their institutions respectively. It can be concluded that investigations done by FRC have led to recovery of assets while collaborations with law enforcement agencies have established evidence for prosecution and conviction of offenders. Through its supervisory role, FRC ensures that financial institutions compliance with international standards and best practices in anti-money laundering measures. The large number of STRs made by financial institutions shows that incidents of money laundering have been prevented by the interventions.

Figure 4.2: Whether money laundering incidents have reduced due to Interventions by FRC

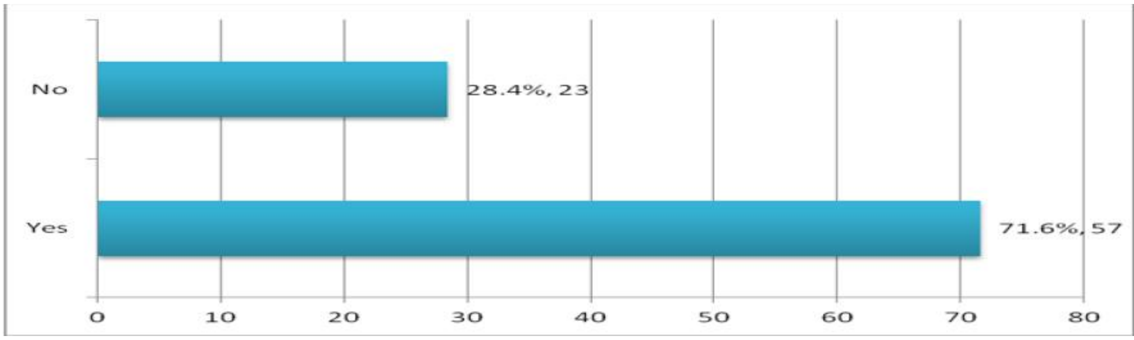
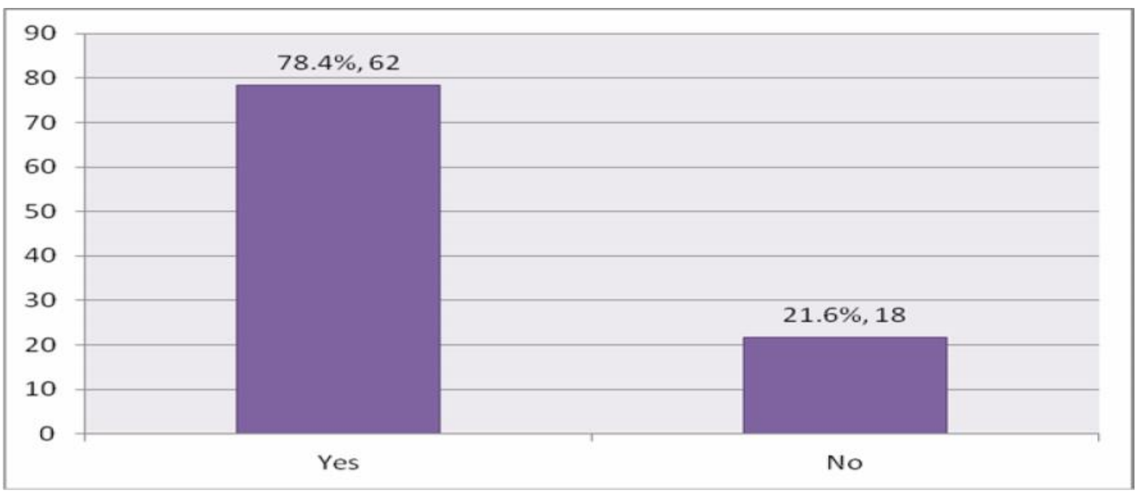


Figure 4.3: Whether money laundering incidents have reduced due to Interventions by Organizations



4.5.5 Methods used by Perpetrators in Money Laundering

The study sought to establish the most common methods used by perpetrators in money laundering. The respondents were asked to rate the level of importance for the methods used by perpetrators money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.14 Common methods used by Perpetrators in Money Laundering

Methods	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Cash intensive businesses (restaurants, nightclubs, fast food outlets and general repair workshops)	63.6	16.3	20.1	-	80	4.80
Purchasing of high value portable commodities (precious metals, antiques, artwork, diamonds, jewelry and gold)	39.2	32.3	23.2	5.3	80	4.25
Trade based money laundering(TBML)(misrepresentation of quality, quantity or price of goods being sold locally or outside the country)	48.5	29.1	22.4	-	80	4.50

From the findings, one can conclude that the most common method used by perpetrators in money laundering include "cash intensive businesses (restaurants, nightclubs, fast food outlets and general repair workshops)" (highest mean of 4.80). The results also indicate that the other two methods were also commonly used by perpetrators in money laundering as shown by the high means. These are trade based money laundering (misrepresentation of quality, quantity or price of goods being sold locally or outside the country) (mean of 4.50) and purchasing of high value portable commodities (precious metals, antiques, artwork, diamonds, jewelry and gold) (mean of 4.25). It can be deduced that criminals mostly prefer cash intensive businesses since large amounts of illicit funds can undergo money laundering. The businesses can avoid detection since they aim for use of cash by targeting customers, service provision and reducing overheads. TBML and purchasing of high value portable commodities are also favoured since they can facilitate money laundering with a minimal risk of detection.

4.5.6 Incidents of Money Laundering investigated and resolved

The results show that the respondents have investigated different incidents of money laundering within their work establishments. These incidents include cash-intensive businesses where businesses that legitimately deal with large amounts of cash use their accounts to deposit money obtained from both everyday business proceeds and money obtained through illegal means. Second group of incidents are tax evasions, smuggling of goods, unlicensed forex dealers or agents.

"Where goods purported to be on sale where nowhere to be found once a site visit was conducted and yet the turnovers in the accounts were high and unusual."- Gitau. Z. Senior Manager, Head of Compliance – I&M bank..

The third group of incidents is acquisition of real estate property with money obtained illegally or from proceeds of money laundering and sale of property with no supporting documents or fake documents. This includes a case where a suspect acquired a five star hotel from proceeds of money laundering withdrawn in a banking institution. Fourth group of incidents included making cash deposits with no known sources, large volume of currency exchange, unwillingness to provide identity and foreign inward remittances from unknown sources. Also is suspicious money transfer and structuring or where cash has been broken down into smaller amounts to avoid detection or reporting thresholds. Other incidents reported were loan back schemes, unlicensed money changer, terrorism financing and drug trafficking. Fifth group of incidents is corruption through embezzlement, theft and fraudulent use of public funds through national and County Government accounts. This also includes receipt of funds from County Governments by suppliers with insufficient supporting documentation, conflict of interest.

"Corruption case involving a customer who was misrouting funds meant for resettlement IDPs. The funds in the account were frozen awaiting further action by law enforcement officers." – Kasyula S. Financial Crime Analyst – Barclays bank.

When asked to identify the cases which were resolved, the respondents indicated that they forwarded all the cases to FRC for further investigations. On cases which were not resolved, the respondents indicated that cases involving foreign inward remittances from unknown sources are not easy to resolve due to difficulties in confirming the initial sources of funds to the originating account.

"A case for a number of customers who were using money transfer services (money gram and western union) to receive funds from USA. The customers were using fake identification to make the payment. The customers were walk in and didn't have account with the bank. The customers were foreigners using fake KYC documents to receive funds. They were suspected of drug trafficking and fraud." – Kathuri E.K. AML Analyst – Equity bank.

4.6 Obstacles to the Prevention of Money Laundering

This section discusses the obstacles to the prevention of money laundering. It includes underlying obstacles to the prevention of money laundering, strategies in combating obstacles to prevention of money laundering, liaisons in prevention of money laundering and suggestions in addressing limitations.

4.6.1 Underlying Obstacles to the prevention of Money Laundering

The study sought to establish the underlying obstacles to the prevention of money laundering. The respondents were asked to rate the level of importance for the underlying obstacles to the prevention of money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.15 Obstacles in prevention of Money Laundering

Obstacles	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Inadequate training in anti-money laundering	47.8	20.8	21.8	9.6	80	3.95
Poor communications	29.3	26.3	34.2	10.2	80	3.65
Inferior technological knowledge/skills	22.3	35.3	33.2	9.2	80	3.60
Inefficiencies in coordination	36.2	61.5	20.5	2.3	80	4.00
Poor statistics and information imbalance	20.5	42.5	26.8	10.2	80	3.69
Failure to enforce the money laundering rules and regulations	65.9	20.4	13.7	-	80	4.15

From the findings, one can conclude that the most important obstacles which were considered to be facing anti money laundering efforts to a great extent include “failure to enforce the money laundering rules and regulations” (highest mean of 4.15), “inefficiencies in coordination” (mean of 4.00) and “inadequate training in anti-money laundering” (mean of 3.95). These results show that failure to enforce the money laundering rules and regulations, inefficiencies in coordination and inadequate training in anti-money laundering work against prevention of money laundering. The rest of the obstacles also have higher means of above 3.00 which indicate that they impede prevention of money laundering. These obstacles include poor statistics and information imbalance, poor communications and inferior technological knowledge or skills.

Failure to enforce the money laundering rules and regulations creates inconsistency and ineffectiveness in compliance. In Africa, there is lack of political will in prosecution of money laundering cases resulting in lighter sentences which are not deterrent. Local banks have not invested adequately as compared to global banks which have invested heavily in their own financial crime investigation units. One reason given is the fear of local banks to lose customers if the strict regulations are put in place. Local and regional banks in Africa also face weaker regulations and put less focus on countering money laundering as compared with international banks. The extent of nation-wide and financial-industry wide coordination is not clear.

Secondly, Training creates awareness on what should be done or not done. Money laundering involves intricate processes which require specialized skills as well as coordination among stakeholders. Consistency and accuracy of data helps identify patterns on what is usual or not while lack of statistics means no evidence. Lack of awareness among the stakeholders who are the first line of defense in preventing money laundering and poor information sharing between players especially the private sector and banks also affect AML efforts. Inferior technological knowledge or skills has an impact on transaction monitoring and implementation of enhanced due diligence in compliance measures. Inferior technological knowledge/skills and inadequate training in anti-money laundering opens the gate way to money laundering and the rest of AML measures may be rendered useless.

4.6.2 Strategies in Combating Obstacles to Prevention of Money Laundering

The study sought to establish strategies in combating obstacles to prevention of money laundering. The respondents were asked to rate the level of importance for the strategies in combating obstacles to prevention of money laundering. A Likert scale was used where very high extent was given a weight of 5, high a score of 4, low a score of 3, very low a score of 2 and not at all was given a score of 1. The means were then compared as shown in the table below.

Table 4.16 Strategies in prevention of Money Laundering

Strategies	VH (%)	H (%)	L (%)	VL (%)	Total frequency	Mean
Legislation	55.2	31.3	13.5	-	80	4.25
Funding of AML bodies	50.5	29.3	20.2	-	77	3.87
Criminal proceedings to prevent money laundering	57.3	30.1	6.4	6.2	80	4.00
Adequate training in anti-money laundering	53.2	33.5	13.3	-	80	4.22
Good communication between stakeholders	53.5	26.4	20.3	-	80	3.98
Improved Technology and Innovation	37.3	33.4	29.3	-	80	3.82
Efficiency in coordination	53.3	36.3	10.4	-	80	4.44
Good Statistics and Sharing of Information	59.5	20.4	15.6	4.5	80	4.40

From the findings, one can conclude that the most important strategies in combating obstacles to prevention of money laundering to a great extent include “efficiency in coordination (highest mean of 4.44), “legislation” (mean of 4.25), “adequate training in anti-money laundering” (mean of 4.22), “good statistics and sharing of information” (mean of 4.40) and “criminal proceedings to prevent money laundering” (mean of 4.00).

These results show that efficiency in coordination, legislation, adequate training in anti-money laundering, good statistics/ sharing of information and criminal proceedings play an important role in combating obstacles to prevention of money laundering. The rest of the strategies also have higher means of above 3.00 which indicate that the strategies combat obstacles to prevention of money laundering. The strategies include good communication between stakeholders, funding of AML bodies and improved technology and innovation.

4.6.3 Liaisons in Prevention of Money Laundering

All the respondents indicated that there are liaisons between their organization and others in the prevention of money laundering. The respondents also indicated that these liaisons included with regulator (CBK/FRC), correspondent banks, Banking Fraud Investigation Unit (BFIU), EACC, ARA, KBA, ODPP, financial institutions, correspondent banks, financial IT companies that provide AML Solutions and system providers. In addition, key personnel from financial institutions take part in seminars and forums organized by AML bodies while banks benefit from the Kenya Banker's Association (KBA). Banks also receive local training by experts such as training by experts from Citibank. Stakeholders coordinated and united under one multi-agency task force made up of different Government agencies tasked with combating money laundering. For example, law enforcement agencies are drawn under the Financial Investigation Unit to combat money laundering.

"Banks have appointed a money laundering reporting officer who acts as a contact person between the bank and FRC. The banks have come up with a risk committee called compliance and operational risk committee where key AML matters are escalated and discussed."- Kasyula S. Financial Crime Analyst – Barclay bank.

4.6.4 Liaisons required in Prevention of Money Laundering

The study indicated that there are various liaisons that have not been established but are important in the prevention of money laundering. There is need for global summits on practical and relevant approaches to managing AML/CFT risks and subscription to third party providers of specific enhanced due diligence such as World Check EDD service. International stakeholders provide important information from foreign jurisdictions. Secondly, there is need for improvement of mutual legal assistance mechanisms and interpol to fast track investigations involving offshore accounts and assets outside the country. Locally, there is need to form a compliance specific KBA committee on AML and association governing forex bureaus. There is also need for increasing resources for training, hiring of more personnel and enhancing technology. Law enforcement agencies should open County offices to localize AML efforts.

4.6.5 Suggestions in addressing limitations

The study findings suggested several ways through which the limitations in functions for the organizations could be addressed. These included frequent audit review to the AML program and coordination between branch units and compliance department in monitoring and detecting suspicious activities. Financial institutions should collaborate with regulators together with local, regional and global key players. More training in AML for law enforcement should be done while information should be shared better while conducting public education campaigns. Institutions should do more to support capacity in the region while the Government should put more effort in tackling illicit money flows.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The findings were made in light of objectives of the study and found that the level of training for personnel involved in anti money laundering is generally high especially for bank staff but not law enforcement agencies. The factors that lead to prevalence of money laundering are technological innovation, globalization and inadequate training. Other factors are inefficiencies in coordination among stakeholders, improvements in communications, poor statistics and information imbalance, and spread of international banks. These factors lead to increased money laundering risks such as use of new and faster payment methods and lack of adequate AML controls.

5.1.1 Causes of Money Laundering

The study found that money laundering may occur when professionals offer advisory services while law enforcement agencies are involved in corruption. The actors involved in money laundering were identified to include criminals of the predicate offences, and professionals giving advisory services. Other actors are reporting financial institutions with weak AML programs and bodies charged with combating money laundering. The actors in money laundering who were considered most important include commercial banks, money remittances providers and insurance companies, law enforcement officers, micro finance institutions and telecommunication companies and mortgage finance companies and investment banks.

5.1.2 Actors in Money Laundering

According to the study, the roles of actors in prevention of money laundering includes complying to the AML/CFT framework, having a designated compliance function/officer, an ongoing employee training program and an independent audit function to test the overall effectiveness of the AML program. The most important roles in prevention of money laundering were good statistics and sharing of information, adequate AML training and improved technology and innovation. Other roles are efficiency in coordination, legislation, criminal proceedings, funding of AML bodies and good communication between stakeholders. The institutions which contributed the most towards prevention of money laundering were legal and fiscal service providers, money remittances providers and insurance companies, and dealers of precious metals and stones, jewelers and car dealers.

5.1.3 Combating Money Laundering

The study found that FRC had succeeded in combating money laundering despite the challenges it faced. The frequency of incidents of money laundering was found to be high while the volume of money moved in the last year by money laundering was estimated to be between Kshs 26 billion - Kshs 40 billion. Due to interventions by FRC and by other institutions, incidents of money laundering were found to have reduced. The study found the most common method used by perpetrators in money laundering was cash intensive businesses followed by trade based money laundering and purchasing of high value portable commodities. The incidents investigated by the institutions include cash-intensive businesses, tax evasions, illegal acquisition or sale of real estate property, suspicious money transfer and structuring, terrorism financing and corruption in public funds.

5.1.4 Obstacles in the Prevention of Money Laundering

The study found the most important underlying obstacle to the prevention of money laundering was failure to enforce the money laundering rules and regulations followed by inefficiencies in coordination and inadequate training in anti-money laundering. Others are poor statistics and information imbalance, poor communications and inferior technological knowledge or skills. The most important strategies in combating obstacles to prevention of money laundering were efficiency in coordination, legislation, adequate training, good statistics and sharing of information and criminal proceedings. Other strategies were good communication between stakeholders, funding of AML bodies and improved technology and innovation. The study found that organizations had liaisons with the regulator, correspondent banks, KBA, law enforcement agencies, financial institutions, IT companies providing AML solutions and through participation in seminars, training and being under a multi-agency task force.

The study established that there is need for additional liaisons such as global summits in managing AML/CFT risks, subscription to third party providers of specific enhanced due diligence (EDD) such as World Check EDD service, improvement of mutual legal assistance mechanisms and Interpol, compliance specific KBA committee on AML, forex bureaus association, increasing resources for training, personnel and technology. The study suggested ways to address limitations in functions through frequent audit review of AML program, coordination between branch units and compliance department, collaboration with regulators and with local, regional and global key players, more training in AML for law enforcement, better sharing of information, public education campaigns, institution support of capacity in the region and more effort by Government in tackling illicit money flows.

5.2 Conclusions

From the above findings, conclusions can be drawn that the factors that lead to prevalence of money laundering are technological innovation, globalization, inadequate training, inefficiencies in coordination among stakeholders, improvements in communications, poor statistics and information imbalance, and spread of international banks. The actors in money laundering include criminals of the predicate offences, professional advisors, financial institutions and regulators. However, commercial banks, money remittances providers and insurance companies, law enforcement officers, micro finance institutions and telecommunication companies and mortgage finance companies and investment banks play a significant role.

FRC has succeeded in combating money laundering despite the frequency of incidents of money laundering being high with the volume of money moved in the last year by money laundering estimated to be between Kshs 26 billion - Kshs 40 billion. However, due to interventions by FRC and by other institutions, incidents of money laundering have reduced. The underlying obstacles to the prevention of money laundering were failure to enforce the money laundering rules and regulations, inefficiencies in coordination and inadequate training in anti-money laundering. Others are poor statistics and information imbalance, poor communications and inferior technological knowledge or skills.

5.3 Recommendations

5.3.1 Policy Recommendations

The Government should strengthen AML legislation by giving clarity in the definition of money laundering under section 3 of POCAMLA to specify the circumstances under which it can be ascertained that a person may know or ought to have reasonably known that property is or forms part of the proceeds of crime. Other sections to be given clarity are section 4 on knowledge of property and section 8 on tipping off and reconsideration of the reporting threshold of USD 10,000. Government should ensure that there are adequate AML controls and encourage courts to impose stiff sentences. Government should also provide enforcement agencies with adequate training in anti-money laundering to increase their capacity and put more effort in tackling illicit money flows.

5.3.2 Recommendations for Further Research

This study focused on factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering in Kenya. Despite this issue being important for protecting the financial sector and economy in general, it has not been given due attention by the Government and stakeholders. There is also little information on the factors that affect the Financial Reporting Centre and Financial Institutions in prevention of money laundering. Further studies are therefore recommended on the role of other law enforcement agencies in order to get a true and broad picture of the issue.

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APPENDICES

Appendix 1: Letter of Introduction to Respondents

Thomas Muli Kathuli,
University of Nairobi
Department of Sociology & Social Work
P. O. Box 30197
Nairobi

TO WHOM IT MAY CONCERN,

<u>RE: RESEARCH STUDY</u>

I am a Post Graduate student at the University of Nairobi, Department of Sociology and Social Work. I am conducting a final research project on the factors that affect effectiveness of the Financial Reporting Centre and financial institutions in prevention of money laundering.

I'm kindly requesting you to respond to the questionnaire attached as honestly as possible. The questionnaire is meant for academic purposes only and the response given will be treated with utmost confidentiality.

I look forward to your honest participation.

Yours faithfully,

Thomas Muli Kathuli

Appendix II: Questionnaire for Personnel in FRC, Financial Institutions, Designated non-financial business or professions and Law Enforcement Agencies

I. Background Information

1. Name ....

2. Age

(1) 25 -31 years [ ]

(2) 32-38 [ ]

(3) 39-45 [ ]

(4) Above 45 years [ ]

3. Gender:

(i) Male [ ]

(ii) Female [ ] (Tick one)

4. Which is your organization? …………………………………………………

5. What is your Designation? ....

6. How long have you served in the organization?

(a) 1– 3 years [ ]

(b) 4 – 6 years [ ]

(c) 7 – 9 years [ ]

(d) 10 – 12years [ ]

(e) 13+ years [ ]

7. Highest level of education

(a) Masters Degree [ ]

(b) Bachelors Degree [ ]

(c) College Diploma/Certificate [ ]

(d) Secondary Education [ ]

II. Causes of Money Laundering

8. What is the level of training in anti-money laundering that you have received?

   (1) Very High [ ] (2) High [ ] (3) Moderate [ ] (4) Low [ ] (5) Very Low [ ]

9. Please describe the training you have so far received……………………………

   ....

   ……………………………………………………………………………………

   ……………………………………………………………………………………

10. How would you rate the extent to which the following have led to prevalence of money laundering? Please use the following key;

    (5) Very High

    (4) High

    (3) Low

    (2) Very Low

    (1) Not at all

Factor leading to money laundering	**Extent to prevalence of money laundering**				
	1	**2**	**3**	**4**	**5**
Inadequate training					
Globalization					
Improvements in communications					
Spread of international banks					
Technological innovation					
Inefficiencies in coordination among stakeholders					
Poor statistics and information imbalance					

11. Describe how advisory services by professionals and corruption among law enforcement officers lead to prevalence of Money Laundering……………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………

12. Describe how the factors listed in 10 above have led to prevalence of Money Laundering…………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………

III. Main Actors in Money Laundering

13. (a) Who are the actors involved in money laundering in Kenya?.............
………..
…………………………………………………………………………………………
…………………………………………………………………………………………
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…………………………………………………………………………………………
…………………………………………………………………………………………

14. (a) Describe your role in the prevention of money laundering in Kenya……………....
…………………………………………………………………………………………
…………………………………………………………………………………………
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…………………………………………………………………………………………
…………………………………………………………………………………………

(b) List the ways or roles by which you can act to prevent money laundering?

Legislation [ ]

Funding of AML bodies [ ]

Criminal proceedings to prevent money laundering [ ]

Adequate training in anti-money laundering [ ]

Good communication between stakeholders [ ]

Improved Technology and Innovation [ ]

Efficiency in coordination [ ]

Good Statistics and Sharing of Information [ ]

15. (a) How has your organization contributed towards the prevention of money laundering in Kenya? ……………..

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

(b) Has your organization done the following towards the prevention of money laundering?

Statement	**Yes**	**No**
i. Adequate training in anti-money laundering		
ii. Criminal proceedings to prevent money laundering		
iii. Funding of AML bodies		
iv. Legislation		
v. Good communication between stakeholders		
vi. Improved Technology and Innovation		
vii. Efficiency in coordination		
viii. Good Statistics and Sharing of Information		

16. To what extent have the following institutions contributed to Money Laundering? Please use the following key;

(5) Very High

(4) High

(3) Low

(2) Very Low

(1) Not at all

Institution	Extent of contribution to money laundering				
	1	**2**	**3**	**4**	**5**
Commercial banks					
Micro finance institutions and Telecommunication companies					
Mortgage finance companies and Investment banks					
Money remittances providers and Insurance companies					
Investment advisors, Fund managers and Real estate agents					
Stock brokers and Casinos					
Legal and fiscal service providers (lawyers, tax advisors, accountants and company secretaries)					
Dealers of precious metals and stones, jewelers and car dealers					
Specialized private firms (World-Check and ACAMS)					

17. Give the level of importance that you have given to the actors in money laundering. Please use the following key;

(5) Very High

(4) High

(3) Low

(2) Very Low

(1) Not at all

Actors in money laundering	Extent of importance in money laundering				
	1	**2**	**3**	**4**	**5**
Law enforcement officers					
Commercial banks					
Micro finance institutions and Telecommunication companies					
Mortgage finance companies and Investment banks					

Money remittances providers and Insurance companies					
Investment advisors, Fund managers and Real estate agents					
Stock brokers and Casinos					
Legal and fiscal service providers					
Dealers of precious metals and stones, jewelers and car dealers					
Specialized private firms					

III. Extent to which the Financial Reporting Centre has succeeded in combating Money Laundering

18. Has the Financial Reporting Centre succeeded in combating Money Laundering?

Yes [ ]

No [ ]

19. Please explain the reason for your answer above…………………………………..

……………..

………………………………………………………………………………………

………………………………………………………………………………………

………………………………………………………………………………………

20. What is the frequency of incidents of money laundering in Kenya?

(5) Very High [ ] (4) High [ ] (3) Moderate [ ] (2) Low [ ] (1) Very Low [ ]

21. Please estimate the volume of money moved by money laundering in the last year.

Kshs 15 billion - Kshs 25 billion [ ]

Kshs 26 billion - Kshs 40 billion [ ]

Kshs 41 billion - Kshs 55 billion [ ]

Above Kshs 55 billion [ ]

22. Have the incidents of money laundering in Kenya reduced due to interventions by the Financial Reporting Centre?

(1) Yes [ ]

(2) No [ ]

If yes, by how much?...

23. Have the incidents of money laundering in Kenya reduced due to interventions by other (your) organization?

(1) Yes [ ]

(2) No [ ]

If yes, by how much?...

24. Which are the most common methods used by perpetrators in money laundering? Give the level of importance that you have given to the methods used in money laundering. Please use the following key;

(5) Very High

(4) High

(3) Low

(2) Very Low

(1) Not at all

Methods used by perpetrators	**Extent of importance to money laundering**				
	1	**2**	**3**	**4**	**5**
Cash intensive businesses (restaurants, nightclubs, fast food outlets and general repair workshops)					
Purchasing of high value portable commodities (precious metals, antiques, artwork, diamonds, jewelry and gold)					
Trade based money laundering (misrepresentation of quality, quantity or price of goods being sold locally or outside the country)					

25. What incidents/cases of money laundering have you had to investigate in your position?...

………………………………………………………………………………………

………………………………………………………………………………………

26. What incidents or cases were you able to resolve?...

....

……………..

27. What incidents or cases were you not able to resolve? Why?..................................

....

…………..

……………………………………………………………………………………

IV. Underlying Obstacles to the Prevention of Money Laundering

28. Which are the underlying obstacles to the prevention of money laundering?

Give the level of importance that you have given to these obstacles. Please use the following key;

(5) Very High

(4) High

(3) Low

(2) Very Low

(1) Not at all

Obstacles to prevention of money laundering	**Extent of importance to money laundering**				
	1	**2**	**3**	**4**	**5**
Inadequate training in anti-money laundering					
Poor communications					
Inferior technological knowledge/skills					
Inefficiencies in coordination					
Poor statistics and information imbalance					
Failure to enforce the money laundering rules and regulations					

29. Please give an explanation for your answers in 28 above…………………………

....

……………..

……………………………………………………………………………………

……………………………………………………………………………………

30. Give the level of importance that you have given to the following strategies in combating obstacles to the prevention of money laundering. Please use the following key;

(5) Very High

(4) High

(3) Low

(2) Very Low

(1) Not at all

Strategies in combating obstacles	**Extent of importance in combat obstacles in money laundering**				
	1	**2**	**3**	**4**	**5**
Legislation					
Funding of AML bodies					
Criminal proceedings to prevent money laundering					
Adequate training in anti-money laundering					
Good communication between stakeholders					
Improved Technology and Innovation					
Efficiency in coordination					
Good Statistics and Sharing of Information					

31. Are there any liasons between your organization and others in the prevention of money laundering?...

……………………………………………………………………………………

……………………………………………………………………………………

32. What liaisons has your organization established to support your work?

……………..

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33. What liaisons has your organization not established but are important for your work?...
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…………………………………………………………………………………
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34. In what ways can the limitations in your organization's functions be addressed?
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Thank you for your cooperation.

Appendix III: Key Informant Guide

1. What are the causes of money laundering? Please explain your answer………
……………………..
...................…………………………………………………………………

2. Who are the actors involved in money laundering in Kenya?............………..
....………………
…………………………………………………………………

3. How is money laundering perpetrated in Kenya?...........……….............................
………………………………………………………………………………………

4. How can money laundering be prevented? Explain your answer………………………
………………………………………………………………………………………

5. Have the Financial Reporting Centre, financial institutions or designated non-financial businesses or professions succeeded in combating Money Laundering? Please explain your answer ………………………………..……………...
………………………………………………………………………………………

6. Which are the underlying obstacles to the prevention of money laundering?.............
....……………….....................
....

7. How can the obstacles you have identified above be combated in the prevention of money laundering?…………………........................……………………………………...
…………………........................……………………………………….................................

8. In what ways can the limitations in your organization's functions be addressed for the prevention of money laundering?...

Appendix IV: Letter of Authorization from the Department

UNIVERSITY OF NAIROBI
DEPARTMENT OF SOCIOLOGY & SOCIAL WORK

Fax 254-2-245566
Telex 22095 Varsity Nairobi Kenya
Tel. 318262/5 Ext. 28167

P.O. Box 30197
Nairobi
Kenya

23rd February, 2018

TO WHOM IT MAY CONCERN

RE: THOMAS MULI KATHULI - C50/85556/2016

Through this letter, I wish to confirm that the above named is a bonafide postgraduate student at the Department of Sociology & Social Work, University of Nairobi. He has presented his project proposal entitled; "**Factors that affect effectiveness of the financial reporting centre and financial institutions in prevention of money laundering: A case study of Nairobi County.**"

Thomas is required to collect data pertaining to the research problem from the selected organization to enable him complete his project paper which is a requirement of the Masters degree.

Kindly give his any assistance he may need.

Thank you

Prof. C. B. K. Nzioka
Chair, Dept. of Sociology & Social Work