PERCEIVED EFFECTS OF MONEY LAUNDERING ON INTERNATIONAL BUSINESS: A CASE STUDY OF BANKS IN KENYA

BY

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D61/P/8637/04

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF A MASTER OF BUSINESS ADMINISTRATION.
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

SEPTEMBER 2008

Declaration

This research project is my original work and has not been presented for a degree in any university.

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This research project has been submitted for examination with my approval as the university supervisor.

Supervisor: Dr. John Yabs

Signature .... Date ....12/11/2008...................................

Dedication

To the strong women in my life; who surround me as family or friends; for walking this journey with me; for picking me up when I fell; for burning the midnight oil with me; for their unfailing encouragement, love and prayers…………THIS IS TO YOU ALL

To my daughter – may this accomplishment be an inspiration to you, in your pursuit of knowledge and excellence. Always keep in mind, that anything is possible; and that YOU CAN DO IT!!!!

Acknowledgements

This work would never have come to be without the constant nudge from my dear friend Monicah Kihia, on whose continuous encouragement I commenced my MBA. It is not possible to express what that meant to me.

To my family – their understanding, love and prayers saw me through the MBA tides; especially so to my mum; I know she is the "angel" who watches over me through prayer.

To my dear friends, who in one way or another played a part in this………they say, show me your friends, and I will tell you who you are; I have drawn from your strengths and grown in character. May we always share in this strong bond.

Simon – my "man on the ground"; your assistance during my time away from Kenya was invaluable.

Last but not least, to my supervisor, Dr John Yabs, for guiding me through this entire process, for accommodating my very tight schedule, and never giving up on me.

To Him be the glory, our good Lord, Jesus Christ, to whom I am, and will forever be indebted.

Thank you, thank you, thank you

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ABSTRACT

Money laundering has been defined as the act of a person who engages, directly or indirectly, in a transaction that involves proceeds of any unlawful activity; or acquires, receives, possesses, disguises, transfers, converts, exchanges, carries, disposes, uses, removes from or brings into a country proceeds of any unlawful activity; or conceals, disguises or impedes the establishment of the true nature, origin, location, movement, deposition, title of, rights with respect to, or ownership of, proceeds of any unlawful activity.

International business, being transactions that are devised and carried out across national boundaries to satisfy the objectives of individuals and organizations, has grown rapidly and has reached unprecedented proportions due to global linkages brought about by the advancement in technology and economic integration among other factors. The resulting growth in international business as a result of globalization has produced many positive effects. Nevertheless, every coin has two sides, such that the resulting liberalization of international capital flows and the making of money transfer easier has also led to the problem of money laundering.

The importance of banking industry in the conduct of international business cannot be over emphasized. Similarly, the benefits which accrue to the banking industry from international trade are immense. This study therefore sought to find out the perceived effects of money laundering on international business in Kenya as a case study of the banking industry in the country. The broad objective of the study was to find out the main sources of laundered funds in Kenya and the most significant perceived effect of money laundering on international business in Kenya.

The study found out that the most significant perceived effect of money laundering on international business was assets seizure leading to loss of wealth. The study also found out that the main source of laundered funds in Kenya was corruption.

The study recommends further research into other key sectors of the economy such as real estate; hotel and tourism industry; trade in precious metal; casinos; and the stock market. Further research should also be carried to determine how well the country is prepared to tackle the problem of money laundering.

CHAPTER 1: INTRODUCTION

1.1.1 Money Laundering

According to the Asia Pacific Group on Money Laundering (APG) (2001), in lay terms, money laundering is most often described as the "turning of dirty money into clean money". Generally, the act of conversion and concealment is considered crucial to the laundering process of converting cash, or other property which is derived from criminal activity, so as to give it the appearance of money having been obtained from a legitimate source.

The Central Bank of Kenya (CBK) (2006) defines money laundering as the act of a person who engages, directly or indirectly, in a transaction that involves proceeds of any unlawful activity; or acquires, receives, possesses, disguises, transfers, converts, exchanges, carries, disposes, uses, removes from or brings into Kenya proceeds of any unlawful activity; or conceals, disguises or impedes the establishment of the true nature, origin, location, movement, deposition, title of, rights with respect to, or ownership of, proceeds of any unlawful activity.

Barry (2002) defined money laundering as processing the proceeds of criminal activities to disguise their origins. It is used to legalise cash from illegal arms sales, smuggling, and organized crime activities such as drugs trafficking and illegal prostitution rings, as well as embezzlement, insider trading, bribery and computer fraud schemes.

The term 'money laundering' seems to have been coined in the US in the 1920s when street groups would seek a seemingly legitimate explanation for the origins of the money their rackets were generating (Blum et al., 2000). The reasons for the street groups doing so were varied and included firstly, to hide their material success from corrupt police intent on collecting protection payments; secondly, to avoid attracting the often brutal attention of envious competitors; and lastly, to evade the possibility of tax evasion charges, something discovered in the early 1930s to be a powerful weapon against otherwise impregnable criminals.

Today, however, money launderers take the form of well-dressed, well-spoken individuals employing the most complex and sophisticated international investment techniques never moving hard cash but instead operating in far more effective and efficient world of electronic banking and wire transfers of funds (Baldwin, 2003).

Hasib (2004) observes that the term 'money laundering' perfectly describe what takes place, that is, illegal, or 'dirty' money is put through a cycle of transactions and comes out of the other end as legal or 'clean' money. Accordingly, the act of laundering money only occurs if the funds in question are already dirty. In other words, the funds in question must have been obtained as a result of past criminal act. This assumption is not only important but pivotal. The simple act of moving money is not and cannot be illegal. Rather, it is the act of moving 'dirty' money that makes one a money launderer. The prior crime that makes a particular set of funds 'dirty' is known in legal terminology as a predicate offence.

1.1.2 International Business

International business may be defined as transactions that are devised and carried out across national boundaries to satisfy the objectives of individuals and organizations (Brace, 1999). Katsioluodes and Hadjidakis (2007) define international business as profit related activities conducted across national boundaries. It has also been defined as a transaction of a security or a commodity at the country level between sovereign nations (Vaghefi et al, 1991).

International trade can be traced back over two thousand years before Christ was born when traders from Mesopotamia, Greece and Phoenicia engaged in Mediterranean trade. As time passed the Greeks took full advantage of both their military and intellectual leadership by asserting their authority over trade in this area (Brand, 2000). The Romans achieved the same regional dominance a few hundred years later. The Roman peace ensured that merchants would receive protection from Roman soldiers and a safe passage along the roads to Rome where they would eventually conduct business (Hewit, Lymer & Oats, 2001). This was made possible by the rapid travel on roads built, protected, and maintained by the Roman Empire.

Today, international trade has reached unprecedented proportions due to global linkages brought about by the advancement in technology, economic integration, need for additional resources, need to expand sales, development of supporting services as well as population growth coupled with liberalization of cross-border movement (Katsioluodes & Hadjidakis, 2007). The primary types of international business activities being carried out are (i) importing and exporting of goods and services; and (ii) direct foreign investment. Additional or secondary types of international business include licensing, franchising and management contracts.

The growth in international business has subsequently necessitated the growth of the financial systems of which banks form the largest component. The vast of international business finance is offered by the international banking system through commercial banks. Thus, financing international business is one of the major functions performed by the global banking system (Baker, 2003). The liberalization of trade and technological advances in the area of telecommunication, especially the Internet, has further provided organizations with easy access to worldwide customers, distributors, network partners, and supplies (McDougall et al, 2000). With the process of globalization, international business has further been accelerated by the increase in regional integration of countries, creation of free trade areas and trade agreements between countries, thus reducing barriers to international business and hence increasing the number of open markets (Benito & Gireva, 2003). This phenomenon has allowed companies to expand their operations to new markets.

The resulting growth in international business as a result of globalization has produced many positive effects (Kedelova, 2003). Nevertheless, every coin has two sides, such that the resulting liberalization of international capital flows and the making of money transfer easier has also enabled new ways of money laundering which is commonly referred to as the process of legalizing dirty money.

In a recent study by the United Nations Office on Drugs and Crime (2005) on why fighting crime can assist development in Africa, it emerged, through perception survey as well as international crime intelligence and seizures of contrabands, that Africa has become the continent most targeted by organized crime. The growth of international commerce and transport has made Africa, with its weak enforcement capacity and underpaid officials, an ideal conduit thorough which to extract and / or to tranship a range of illicit commodities such as drugs, firearms, minerals and oil, timber, wildlife, and even human beings. Lack of official controls also makes the continent vulnerable to money laundering and corruption.

Money laundering has of late become a problem of global concern, requiring concerted and cooperative action on the part of a broad range of institutions. The breadth and the cross-cutting nature of the problem has made it a global issue more so in relation to international trade.

With the growing link between drug trafficking, money laundering, and international terrorism, Kenya has been identified as a vulnerable location especially following the 1998 bombing of the United States (US) embassies in Nairobi and Dar es Salaam and subsequent massive September 11th 2001 attacks in the US (Warutere, 2006). The US categorises Kenya as one of the countries on its regular watch list of money laundering and terrorism financing from drug trafficking and corruption, hence the travel advisories issued to the US citizens from freely travelling to Kenya on business and tourism from time to time.

Four significant occurrences in the resent past lend credence to the possibility of significant money laundering activities in Kenya. First is the Goldenburg scandal, for which computations indicate that as much as US$ 1 billion could have been directly or indirectly siphoned through its networks (Warutere, 2005). The second case involves the haul of a tonne of cocaine with an estimated street value of US $ 85 million that was seized at the Kenyan coastal town of Malindi by the anti-narcotics police unit (Warutere, 2006). This was reported to have been the largest haul ever made anywhere in Africa. The third case involves the Anglo Leasing scandal which has caused a considerable public outcry. Anglo Leasing involved a series of dubious international financial transfers relating to government security contracts through several intertwined local and international firms. The forth case relates to the protracted stand-off in 2001 between the Central Bank of Kenya (CBK) and Charterhouse Bank, which had received an international transfer of US$ 30 million on account of Crucial Properties, one of its customers (Warutere, 2006).

1.1.3 The Banking Industry in Kenya

The importance of banking industry in the conduct of international business cannot be over emphasized. Strong banks, especially in the developing countries such as Kenya are critical to economic growth. Banks contribute to the operation and growth of the economy through various roles, including that of intermediary and provider of payment settlement facilities. Banks must also execute these roles faultlessly in order to promote confidence and stability in the system. The traditional role of banks has been that of intermediary, that is, the bringing together of borrowers and lenders (savers or depositors) which allow for the concentration of capital resources from domestic savings and funds from abroad and the efficient allocation of such resources to investment projects that generate sustained economic development. This can only be done successfully, and for a sustained period, with the careful management of credit, liquidity and interest rate risk.

Essentially, because a bank is funded primarily by depositors, it has an obligation to ensure that the risk which depositors' funds are exposed to is minimized. Bank failures expose the banking system to systemic risk, which is the risk that all depositors panic and attempt to withdraw their funds. The strain on liquidity would lead to a collapse of the entire system. Therefore the sound management and regulation of all banks in the system is crucial.

Money laundering is not just an issue for the banking industry alone, but the banking sector does risk playing a key role in the process of laundering money. Banks' increasing ability to transfer funds rapidly in an anonymous, automated manner makes them a target of criminal activity, and if banks do not pay due attention to a number of anti-money laundering issues, they could unwittingly be used by money launderers for criminal purposes. This can have devastating implications for banks as it poses a significant threat to public confidence and indeed to the future of the bank in question (Olsen, 2005).

1.2 Research Problem

According to Bartlett (2002), money laundering impairs the development of banks and other financial institutions and by extension international trade from the fact that money laundering erodes financial institutions themselves as there is often a correlation between money laundering and fraudulent activities undertaken by employees. Further, at higher volumes of money laundering activities, the entire financial institutions are vulnerable to corruption by criminal elements seeking to gain further influence over their money laundering channels.

Customer trust is fundamental to growth of sound financial institutions. The perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust which in turns becomes an obstacle to international business. The USA PATRIOT Act (2001) observes that money launderers subvert legitimate financial mechanisms and banking relationships by using them as protective covering for the movement of criminal proceeds and the financing of crime and terrorism.

McDonnell (1998) posits that the banking system remains one of the most important vehicles for money launderers. This can involve, for example, using banking bearer instruments such as bank drafts, telegraphic transfers to transmit funds internationally and establishment of loan-back schemes. The banking system is so critical to money launderers to the extent that some of those engaged in this criminal activity have set up their own banks. Gold and Levi (1994) reported that the best method of both stealing and laundering money was to own a bank.

According to Warutere (2005), Goldenberg International was licensed to open a commercial bank in the name of Exchange Bank in 1992, presumably to overcome the difficulties it was experiencing at other banks. The establishment of the Exchange Bank was a turning point in the Goldenberg scandal because it meant Goldenberg's transactions were controlled under one umbrella and it was more difficult to subject them to the kind of scrutiny that had been possible when its affairs were reported on by the other bankers who previously dealt with Goldenberg accounts.

Banks play a pivotal role in money laundering matters, even if only inadvertently. The laundering process involves a predicate criminal offence that is followed by concealment and re-introduction into the banking system (Fundira, 2006). Laundered funds end up in banks. The act of banking introduces ill-gotten funds into the formal system and with it a semblance of legitimacy. This is very important to money launderers because they would like to avoid detection. The capacity of banks to detect money laundering is therefore important if the menace is to be eliminated. Globally, the banking sector has become the entry point for measures aimed at regulating and controlling the flow of laundered funds (Hubschle, 2006).

There seems to be consensus that money laundering is a universal phenomenon, and further, that it is both iniquitous and problematic. It is a global concern (Mullei, 2006) and has significant impact on international trade. Nevertheless, it remains a relatively understudied problem in Kenya and the rest of the East and Southern African region. There is not much data on the nature, varieties, and extent of money laundering in the region (Goredema, 2003) and how it impacts on the international business environment.

In order to address the growing problem of money laundering within the financial institutions, the Central Bank of Kenya (CBK) issued a revised 'Guideline on Proceeds of Crime and Money Laundering (Prevention)' effective 1 January 2006. Further, it is expected that the Parliament, after repeated failures, will this year, enact the 'The Proceeds of Crime and Anti-Money Laundering Bill'.

There is therefore a need to carry out a study within the banking industry to determine the effects of money laundering on international business in Kenya. The study would better be carried out in the banking industry since as highlighted above, the banking industry is at the heart of international trade and is directly impacted by money laundering.

1.3 Objectives of the Study

The general objective of this study is to assess the effects of money laundering on international business. The specific objectives are;

1. To determine what the banks in Kenya perceive to be the effects of money laundering on international business.

2. To determine the sources of laundered funds in Kenya.

1.4 Importance of the Study

The results of this study will be important to;

- The parliamentarians, as they seek to enact a law that will check on / curb money laundering in this country. This study will offer them a deeper understanding of money laundering issues especially those which impact on international business and the banking industry;

- The Central Bank of Kenya, as it is the institution charged with the responsibility of overseeing the activities of the banking industry and money laundering is a key component of its duties;

- The banking industry as a whole, at it will help bring to the fore the problems faced by the banks as a result of money laundering;

- The public at large, as the public is interested in a crime free financial sector as well as predictable and stable financial and economic environment in relation to matters such as interest and exchange rates; and,

- Scholars, by stimulating interest and debate as well as enhancing the literature on effects of money laundering on international business in Kenya.

CHAPTER 2: LITERATURE REVIEW

2.1 Previous Studies

A few studies have been carried out in Kenya and the neighbouring regions on money laundering. Goredema (2003) carried out a preliminary overview of the threat of money laundering in the East and Southern regions of Africa. The overview was an attempt to contribute to an understanding of the dimensions of money laundering in the countries which comprise the East and Southern Africa Anti-Money Laundering Group (ESAAMLG). The overview was mainly based on observations and perceptions recorded in the six months of 2002 by researchers, investigators and journalists. Goredema (2003) concluded that laundering was occurring in the region on a significant scale and that 50 percent of the East and Southern Africa banks were regarded as high risk in terms of susceptibility to money laundering.

Kegoro (2004) carried out a study devoted to the review of the arrangements in place in Kenya for the control of criminal activities whose motives were financial gain. The study evaluated the then existing institutional and legislative arrangements put in place to control money laundering. The study also sought to review the adequacy of Kenya's compliance with the Resolution 1373 passed by the United Nations in response to the threat of terrorism. The study found out that the anti-money laundering legislation had been developed on a piecemeal basis and that the statutes in existence then, merely created offences in relation to laundering the proceeds of the criminal activities they set out to control. The existing statutes neither intend nor attempt to set up institutions to detect and punish money laundering.

Warutere (2006) studied the aspects of detecting and investigating money laundering in Kenya. The study highlighted the potential sources of laundered money. The study further looked at the channels used to legitimize laundered money as well as the emerging legal framework and its limitation in controlling money laundering in Kenya. The study concluded that Kenya has taken steps to establish an enabling environment for combating money laundering. The study further concluded that the legal framework would be significantly strengthened with the enactment of the proposed 'Proceeds of Crime and Anti-Money Laundering Bill' of 2006. Warutere (2006), however, noted that authorities will continue to face challenges in combating money laundering particularly where the criminal networks are deeply integrated in the country's political and business machinery.

This study seeks to build on the existing studies to therefore determine the effects of money laundering on international business in Kenya.

2.2 Level of Money Laundering

The desirability of estimating the amount of money laundering that is occurring world wide has been recognized for sometime, yet producing a reliable estimate has proven to be problematic if not impossible (McDonell, 1998). This is largely because money laundering is, by definition, a concealed activity. Scholars have made attempts, however, to estimate the level of money laundering globally. Ensmiger (2002) estimated that money laundering amounts to somewhere between 2 and 5 percent of the world's gross domestic product.

The United State's 'Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism' Act of 2001, commonly referred to by the acronym USA PATRIOT Act, posits that the International Monetary Fund, has estimated money laundering to amount to between 2 and 5 percent of the global domestic product which is at least US$ 6 trillion annually.

At the peak of the Goldenberg scandal in 1993, transactions associated with the scandal accounted for over 10 percent of the Kenya's gross domestic product (Warutere, 2005). Kantai (2005) estimated that the scandal cost the country an estimated US$ 1 billion and is the biggest financial scandal in Kenya's history.

At times the scale of the money laundering and the predicate crimes are so huge that it becomes a treat to the very existence of the state. For example, the Cali and Medellin drug cartels of Columbia, both criminal organizations in the 1980s, had accumulated so much wealth and power that the issue had turned from a public safety problem to a threat against the state itself (Thony, 2000).

2.3 The Stages of Money Laundering

Despite the variety of methods employed, the laundering process is accomplished in three stages. According to the 'Guidelines on Proceeds of Crime and Money Laundering (Prevention) issued by the Central Bank of Kenya (2006), the three stages comprise numerous transactions by the launderers. The three stages are;

- Placement – this refers to the physical disposal of the initial proceeds derived from illegal activity.

- Layering – refers to the separation of the illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the audit trail and provide anonymity.

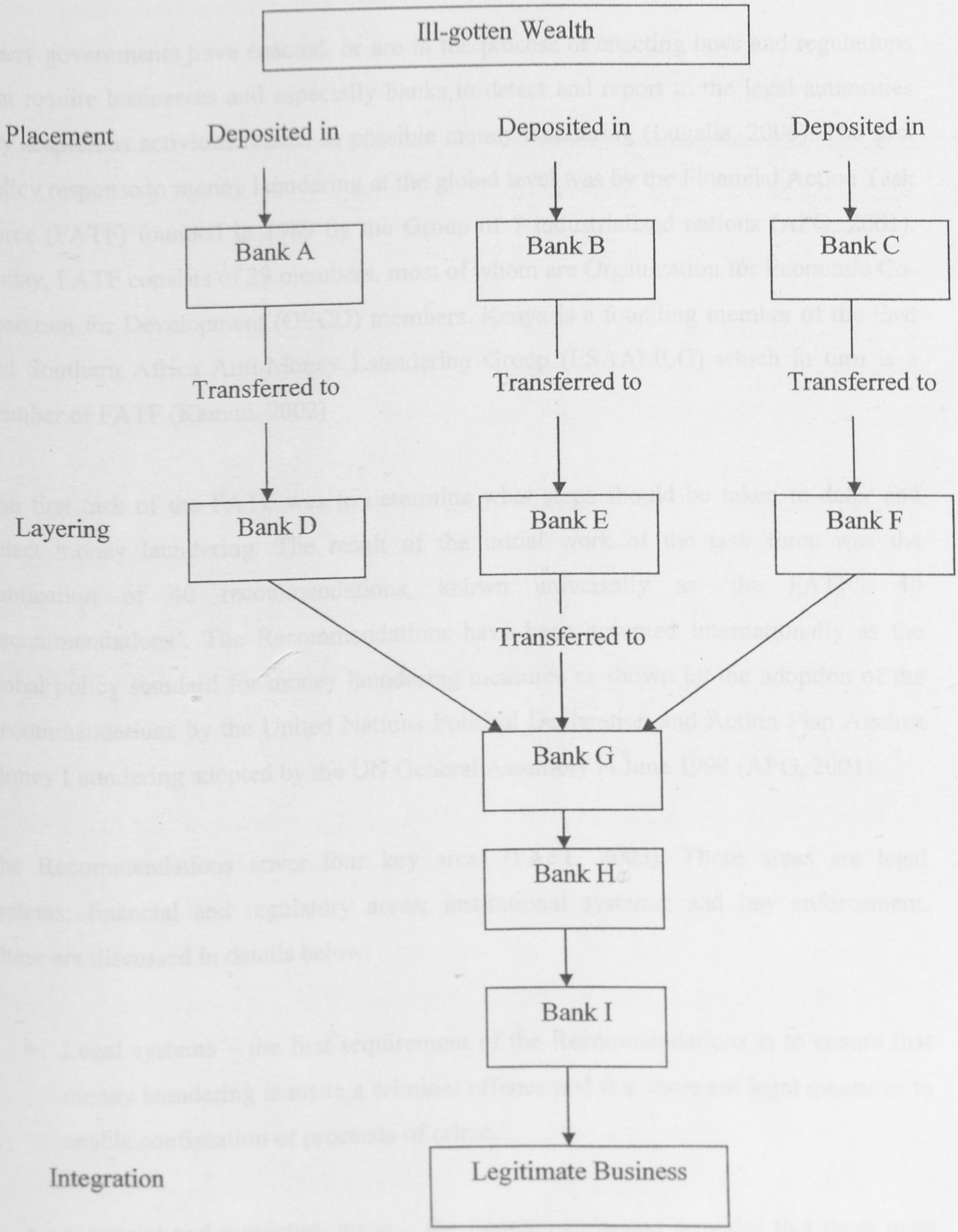
- Integration – this is the provision of apparent legitimacy to criminally derived wealth. If the layering process has succeeded, an integration scheme places the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing as normal business funds.

The three basic steps may occur as separate and distinct phases. Alternatively, they may occur simultaneously or, more commonly, they may overlap. How the basic steps are used depends on the available laundering mechanisms and the requirements of the criminal organizations.

The basic objective is for the criminal to disguise the existence, nature, source, ownership, location and disposition of property derived from criminal activities. Wells (2003) provides a diagrammatic expression of the three stages as shown on figure 2.

The three basic steps in money laundering described above have been universally accepted as the standard cycle of money laundering (Bartlet, 2002; McDonell, 1998; Hasib, 2004; Goredema, 2003; Thony, 2000; FSA, 2001).

Figure 1: Money Laundering Chain



Source: Wells (2003)

2.4 The Anti-Money Laundering Legislation

Many governments have enacted, or are in the process of enacting laws and regulations that require businesses and especially banks to detect and report to the legal authorities any suspicious activities related to possible money laundering (Lugalia, 2006). The first policy response to money laundering at the global level was by the Financial Action Task Force (FATF) founded in 1989 by the Group of 7 industrialized nations (APG, 2001). Today, FATF consists of 29 members, most of whom are Organization for Economic Co-operation for Development (OECD) members. Kenya is a founding member of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG) which in turn is a member of FATF (Kamau, 2002)

The first task of the FATF was to determine what steps should be taken to deter and detect money laundering. The result of the initial work of the task force was the publication of 40 recommendations, known universally as 'the FATF's 40 Recommendations'. The Recommendations have been accepted internationally as the global policy standard for money laundering measures as shown by the adoption of the Recommendations by the United Nations Political Declaration and Action Plan Against Money Laundering adopted by the UN General Assembly in June 1998 (APG, 2001).

The Recommendations cover four key areas (FAFT, 2003). These areas are legal systems; financial and regulatory areas; institutional systems; and law enforcement. These are discussed in details below;

- Legal systems – the first requirement of the Recommendations is to ensure that money laundering is made a criminal offence and that there are legal measures to enable confiscation of proceeds of crime.

- Financial and regulatory areas – the Recommendations provides that there must be prohibition of anonymous accounts and there must be procedures within the financial institutions to identify and report suspicious transactions.

- Institutional systems – the Recommendations call for the setting up of competent authorities with necessary powers and resources to fight money laundering. This implies the setting up of a financial intelligence unit (commonly known as FIU) to serve as a national centre for the receiving, and as permitted, requesting, analysing and disseminating information regarding potential money laundering and terrorism financing.

- Law enforcement – there must be the widest range of assistance between jurisdictions in money laundering investigations and prosecutions, and the capacity to extradite individuals charged with money laundering offences.

In Kenya, the anti-money laundering legislation has developed on a piecemeal basis (Kegoro, 2004). Before 1994 there was no legislation against money laundering. The first attempt to address the issue of money laundering was made by the enactment of the Narcotic Drugs and Psychotropic Substances (Control) Act of 1994.

2.4.1 The Narcotic Drugs and Psychotropic Substances (Control) Act 1994

Although the Act does not specifically define money laundering, sections 49 and 50 are under the heading 'Money Laundering'. Sections 49 and 50 create a statutory offence of money laundering with a maximum imprisonment term of fourteen years. In particular, section 49 relates money laundering to drug trafficking in Kenya, and it thus covers the proceeds of drug trafficking, excluding money earned from other criminal activities.

Section 36 of act provides for the forfeiture of property that a person owns on the date of the commission of an offence. This section also covers property acquired after the commission of an offence. This property is forfeited to the government. Property to be forfeited can be traced outside the borders of Kenya with the co-operation of a foreign state.

2.4.2 The Anti-Corruption and Economic Crimes Act, 2003

This law was among the first laws enacted by the National Rainbow Coalition (NARC) administration to fight corruption and economic crime (Warutere, 2006). It is under this law that the Kenya Anti-Corruption Commission was established, with powers to investigate corruption and economic crime and make recommendations to the Attorney General for prosecution. The act empowers the government to confiscate and seize all proceeds of corruption and economic crime, including bank accounts and properties developed with such proceeds.

Section 26 of the act empowers the Kenya Anti-Corruption Commission to require a person who is reasonably suspected of corruption or economic crime, to furnish a statement detailing the manner in which he or she acquired assets. This also extends to associates of the suspect. Under section 28, the Anti-Corruption Commission may request production of records and property while section 55 deals with the forfeiture of unexplained assets.

2.4.3 The Public Officer Ethics Act 2003

This law was specifically designed to enforce a code of conduct for all public officials. It however, has provisions that are significant in relation to corruption and money laundering. The Act provides for the annual declaration of wealth by all public officials, the main focus of public attention being on the President, members of Cabinet, senior civil servants, judges and judicial officials, heads of state corporations, senior police and military officers and other senior-level public officials in such positions of authority as to be able to influence government contracts and policies for their personal gain (Warutere, 2006).

Most of the officers mentioned above have historically been known to enjoy a host of officially sanctioned opportunities, including allocations of farmlands and urban houses constructed by the government, foreign scholarships for their children and relatives and access to cheap credit from state financial institutions which at times is not repaid. Moreover, there are numerous cases of their being involved in the collection of "kick-backs" from government contracts and being largely responsible for public fund rip-offs through highly inflated contracts for government supplies.

It is noteworthy to point out that the above three statutes merely create offences in relation to the laundering of proceeds of the criminal activities that they set out to control, that is, corruption, economic crimes and drug trafficking. The statutes neither intends nor attempts to set up institutions to detect and punish money laundering which may occur notwithstanding their provisions (Kegoro, 2004).

2.4.4 The Banking Act Cap. 488 and The Central Bank of Kenya Act Cap. 491

This Act provides for a comprehensive mechanism for the regulation of the banking business in Kenya (CBK, 2004). Section 27 and section 28 creates the information and reporting requirements for institutions engaged in the business of banking and for which the CBK has authority to request. The CBK is also bestowed with powers also to inspect and control the institutions involved in the banking business. CBK may further cause an inspection to be made by any authorised person.

The existing anti-money laundering arrangements exist as part of the regulatory framework in the financial sector carried out by the CBK. The CBK is required by the above Act to formulate and implement monetary policies aimed at achieving and maintaining stability in the general levels of prices. The CBK is further empowered, among other things, to formulate and implement foreign exchange policies, to hold and manage foreign exchange and to act as a banker and advisor to, and as fiscal agent of the government of Kenya.

In the exercise of the powers bestowed on it by the Banking Act under section 33(4), which empowers the CBK to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system, CBK has made and issued the Guidelines on Proceeds of Crime and Money Laundering which is the most deliberate attempt under Kenyan law to address the money laundering problem at present (Kegoro, 2004)

2.4.5 Guideline on Proceeds of Crime and Money Laundering (Prevention)

The Guideline is included as a chapter in the prudential regulations issued to the banks and financial institutions by the CBK and is applicable to all institutions licensed under the Banking Act (Cap. 488). Section 1.4 of the Guideline defines money-laundering while section 1.5 discusses the stages of money laundering. Section 2.3 clarifies that it is the responsibility of the board of directors and management of an institution to establish appropriate policies and procedures and to train staff to ensure adequate identification of customers, their source of funds and the use of the said funds. Such policies should also ensure the effective prevention, detection, and control of possible money laundering activities and terrorism financing.

2.4.6 The Proceeds of Crime and Anti-Money Laundering Bill 2008

This Bill was first publish in 2004 and was to be introduced in Parliament in 2005. The suspension of Parliament following the November 2005 referendum on the Constitution meant the Bill was to be discussed in 2006. This, however, did not materialize and the Parliament went on a recess until March 2007. The Bill therefore had to be reintroduced again in 2007 but also lapsed following the end of the ninth parliament followed by the year 2007 elections.

The Bill is the most comprehensive and significant attempt to control money laundering and its possible implications, such as terrorism financing. According to Warutere (2006), the Bill is as a result of the work of a national task force established in 2002 chaired by the Treasury and include other 14 governmental agencies (see section 2.6 below) and seeks to meet the 40 Recommendations issued by the FATF on combating money laundering.

The Bill proposes to enable the authorities to identify, trace, freeze and seize or confiscate funds from proceeds of crime, including corruption, drug trafficking and money laundering. It proposes the establishment of a Financial Intelligence Unit (FIU) to collect and collate information on suspicious transactions and report to the relevant law enforcement agencies. Another proposal is the establishment of a special fund into which all proceeds from money laundering will be credited to support the FIU and other anti-money laundering law enforcement agencies.

Until the bill is enacted, the legal framework in place in Kenya will remain disjointed. This is a common problem experienced in most African countries. Various scholars have expressed concern on this. In his study in evaluating the infrastructure to detect and control money laundering in Malawi, Banda (2004) concluded that if money laundering is to be detected and controlled in Malawi, the country's infrastructure has to be developed as at that moment it was in a haphazard situation. He proposed that the first step be the enactment of the proposed money laundering bill into law. While enumerating how the Tanzanian government had responded to the anti-money laundering and combating of finance of terrorism , Moshi (2002) observed that bits and pieces of legislation do not provide a comprehensive and enabling legal framework for fighting money laundering.

2.5 The Anti-Money Laundering Institutional Framework in Kenya

On February 26th 2002, Kenya established a national task force on money laundering (Kamau, 2002). The task force draws its membership from the Ministries of Finance, Trade and Industry, police forces, the Criminal Investigation Department, the Office of the President, the Office of the Attorney General, the CBK, the Capital Markets Authority (CMA), the Kenya Revenue Authority (KRA), Immigration department, and the Insurance Commission. The task force is coordinated by the Ministry of Finance and the CBK provides secretarial services.

The institutional framework tackling money laundering in the Kenyan banking industry consists of the Central Bank of Kenya, the Kenya Police and the Office of the Attorney General. The three institutions co-operate in the co-ordination of the anti-money laundering efforts. In most countries today money laundering is seen as an issue for financial markets as well as criminal justice systems, raising questions about governance, anti-corruption measures, reputation and financial stability. To move forward, many jurisdictions now involve central banks, finance and justice ministries and law enforcement agencies in their strategies to address the issue (APG, 2001).

2.6 The Anti-Money Laundering Strategies

Successful money laundering enables criminals to remove or distance themselves from criminal activities generating the profits thus making it difficult to prosecute key organizations. It also distances profits from criminal activities to avoid them being confiscated if the criminal is caught as well as enjoy benefits of the profits without bringing attention to themselves and possibly reinvest the profits in future criminal activities or in legitimate business (McDonell, 1998).

Thus the most obvious reason of establishing money laundering counter-measures is to stop criminals from achieving the benefits of money laundering. According to the APG (2001), this specifically helps;

- To stop them from enjoying the personal benefits of their profit as this normally acts both as a deterrent as well as a punishment;

- To prevent them from reinvesting their funds in future criminal activities, that is, to strip them of their working capital base; and

- To provide law enforcement with a means to detect criminal activities through the audit trail and to provide an evidential link for prosecution purposes between criminal acts and major organizers.

The early anti-money laundering strategies in the 1980s were in response to the reality that traditional means of combating organized crime had reached the limits. The only existing weakness of criminal organizations was their need to disguise the origin of their assets. The necessity to put their funds on the market made them extremely vulnerable, and tracing the laundering process was a more cost-effective and less dangerous means to achieve law enforcement objectives. Such a strategy has also the advantage of targeting efforts on the richest and thus most dangerous criminal organizations (Thony, 2000).

The CBK has put in place specific measures which the board of directors of the banks and other licensed financial institutions operating in Kenya need to observe. These specific measures are spelt out under section 4.1 of the Guideline on Proceeds of Crime and Money Laundering (Prevention). The measures include;

a) Obtaining and maintaining proper identification of customers wishing to open accounts or make transactions whether directly or through proxy;

b) Obtaining and maintaining adequate records for a minimum of seven years, regarding the sources of funds and details of transactions in order to (i) enable the identification of unusual or suspicious transactions, and (ii) reconstruct individual transactions;

c) Training of staff on a regular basis in the detection, prevention and control of money laundering and the identification of suspicious transactions;

d) Submitting to the CBK a report of any suspicious transactions or activities that may indicate money laundering or other attempts to conceal the true identity of customers or ownership of assets; and

e) Establish adequate internal control measures which will assist in the prevention and detection on money laundering activities.

Beyond the above measures, the CBK has also prohibited the banks and other licensed financial institutions from the opening and maintenance of anonymous accounts or accounts in obvious fictitious names. In addition, any numbered accounts should go through the same identification and verification process.

Other strategies which will have to be observed by the banks are spelt out in the proposed Proceeds of Crime and Anti-Money Laundering Bill 2006. They include having a designated person to whom employees can report any suspicious transactions. This is contained in section 45 of the Bill. Banks will have to ensure that customer accounts are in the correct names of the account holders. Completion of reports for all cash transactions equivalent to or exceeding US$ 5,000.00 (United States Dollars five thousand), equivalent to an average of say KShs. 350,000.00 (Kenya Shillings three hundred fifty thousand) in any currency will be made compulsory. This will be irrespective of whether the transaction is suspicious or not. Further, upon coming into force the Act will require all banks to undertake customer due diligence on the existing customers. Banks will also be required to find out whether applicants who want to enter into any business relationship or undertake any transaction are acting on behalf of another person.

2.7 Macroeconomic Effects of Money Laundering

Money laundering can have very disastrous effects on an economy especially that of a developing country such as Kenya. This is why governments all over the world are keen on tackling this scourge. The Goldenberg scandal, for example, tore through the Kenya's political, economic and social fabric not just during the years when the actual transactions took place but also long afterwards (Warutere, 2005). The recorded transactions of the scandal took place between 1990 and 1993 but the spill-over effects continued to be felt for more than a decade.

Bartlett (2002) argues that before considering the effect of money laundering on developing economies, it is particularly useful to distinguish among five directions that the money laundering flows may take with respect to the developing country's economy. Bartlett (2002) describes the five flows as;

i) Domestic money laundering flow – here the illegal domestic funds are laundered within the country's economy and reinvested or otherwise spent within the economy.

ii) Returning laundered funds – this implies that funds originate in the developing country, are laundered in part or in full abroad and returned for integration.

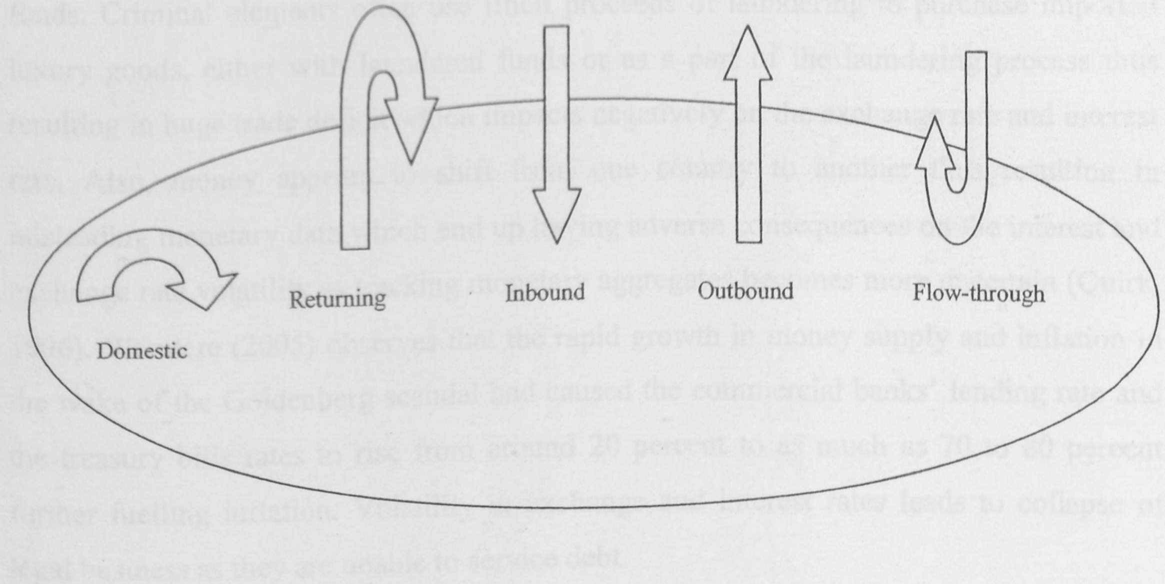
iii) Inbound funds – here the predicate crime occurs abroad, funds are initially laundered abroad or within the developing country and are ultimately integrated into the developing economy.

iv) Outbound funds – typically constitutes illicit capital flight from the developing country's economy. Here funds do not return for integration in the original economy.

v) Flow-through funds – this implies that funds enter the developing country as part of the laundering process and largely depart for integration elsewhere, thus playing little or no role in the economy itself.

The implication for the economy as well as development of effective counter measures is dependent on the kind of flow that the money laundering process takes. The five types of flows are diagrammatically shown in figure 2.

Figure 2: Types of Money Laundering Flows Through a Country



Source: Bartlett (2002)

The negative economic effects of money laundering on economic development are difficult to quantify, just as the extent of money laundering itself is difficult to estimate (Bartlett, 2002). Allowing money laundering activities to proceed unchallenged is not an optimal economic development policy since it, first and foremost, damages the financial institutions such as banks that are critical to economic growth. The negative consequences of money laundering which are found at a macroeconomic level are discussed below;

i) Policy mistakes due to measurement errors in macroeconomic statistics arising from money laundering. According to Bartlett (2002), criminal organizations can transform productive enterprises into sterile investment by operating them for purposes of laundering illicit proceeds rather than as profit maximising enterprise responsible to consumer demand and worth of legitimate capital. In this case, the criminal organization run legitimate cash intensive businesses not with the intention of making profits but as a cover for their criminal activities.

ii) Volatility in exchange and interest rates due to unanticipated cross border transfer of funds. Criminal elements often use illicit proceeds of laundering to purchase imported luxury goods, either with laundered funds or as a part of the laundering process thus resulting in huge trade deficit which impacts negatively on the exchange rate and interest rate. Also, money appears to shift from one country to another thus resulting in misleading monetary data which end up having adverse consequences on the interest and exchange rate volatility as tracking monetary aggregates becomes more uncertain (Quirk, 1996). Warutere (2005) observes that the rapid growth in money supply and inflation in the wake of the Goldenberg scandal had caused the commercial banks' lending rate and the treasury bills rates to rise from around 20 percent to as much as 70 to 80 percent further fuelling inflation. Volatility in exchange and interest rates leads to collapse of legal business as they are unable to service debt.

iii) Development of an unstable liability base and unsound asset structures of individual financial institutions or groups of institutions, creating risk of systemic crises and hence monetary instability.

iv) Effects on tax collection and public expenditure allocation due to misreporting and underreporting of income. Some of the laundered money comes from tax evasion which reduces the resources available for the government to carry out development projects.

v) Misallocation of resources due to distortions in relative assets and commodity prices arising from money laundering activities. Bartlett (2002) observes that money laundered through channels other than financial institutions is often placed in what are known as 'sterile' investment, or investment that generate little additional productivity for broader economy, such as real estate, art, antique, jewellery and luxury automobiles.

vi) Contamination effect on legal transactions due to the perceived possibility of being associated with crime. Quirk (1996), observed that illegal transaction can deter those intent on carrying out legal transaction. Further, the contempt of law also becomes contaminating since breaking one law makes it easier to break others.

Our hypothesis is that the above macroeconomic effects end up having an adverse effect on the growth of international business. This study will therefore seek to carry out a survey on all banks in Kenya to determine the effects the most significant effects of money laundering on international business as well as determine the most significant sources of laundered funds in Kenya.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

This was a survey study because it involved the use of a questionnaire which was circulated to all the licensed banks in Kenya.

3.2 Population

The population or universe of the study was all the licensed banks in Kenya. According to the Banking Supervision Annual Report of 2006 (CBK, 2007), there were 41 licensed banks as at 31 December 2006. Any bank under statutory management was excluded from the research.

3.3 Variables Specification

The variables for this study are as shown in appendix II. The variables were selected since they were considered to be the most relevant to international business. The variables ranged from those which might impact on an individual banking institution specifically to those which could affect the whole economy.

3.4 Data Collection Instrument

Data was collected using a structured questionnaire (see appendix I). The questionnaire was circulated using the drop and pick method. In her study on the capacity of financial institutions and the business sector in Lesotho to detect and control money laundering, Gwintsa (2004), found questionnaires were working best with banking institutions. The first part of the questionnaire dealt with the biodata relating to the respondent individual and bank. The second part of the questionnaire assisted in determining the level of the respondents' understanding of the money laundering matters while the final part addressed the specific objectives of the study.

3.5 Proposed Data Analysis Procedure

To achieve the objectives of the study, data collected with the help of the questionnaire was analysed by the use of tables and descriptive statistics. The respondents needed to be senior bank officials at the level of operations managers or general managers. This was thought to considerably improve the level of the reliability of the study since staff members at this level are considered knowledgeable on money laundering matters.

Initially the *T*-test was considered appropriate for us in the analysis to determine the most significant source of laundered money in Kenya. However, the analysis of variance (ANOVA) technique was found to be the ideal data analysis method. ANOVA is best suited when comparing means of groups, that is, more than two variables. In a sense, analysis of variance, is appropriate because through the analysis of variation in the date, both among and within groups, conclusions can be made about possible difference in the variable means. The level of confidence for the study was set at 95 percent. Due to the high number of variables considered in the perceived effects of money laundering on international business in Kenya, it was considered ideal to perform a factor analysis to be able to group the effects into fewer number of factors. Factor analysis is ideal where we are concerned with decomposing the information content in a set of variables into information about an inherent set of latent components. This helps in finding a few meaningful factors that are underlying the latent dimension of a problem.

CHAPTER 4: DATA ANALYSIS

4.1 Understanding of Money Laundering by Respondents

Out of the 41 study units, responses were received from 36, indicating an eighty eight percent response rate. The respondents were mainly those in the managerial positions since they were considered more knowledgeable in money laundering matters. Table 1 shows the descriptive statistic of the experience in years of the respondents.

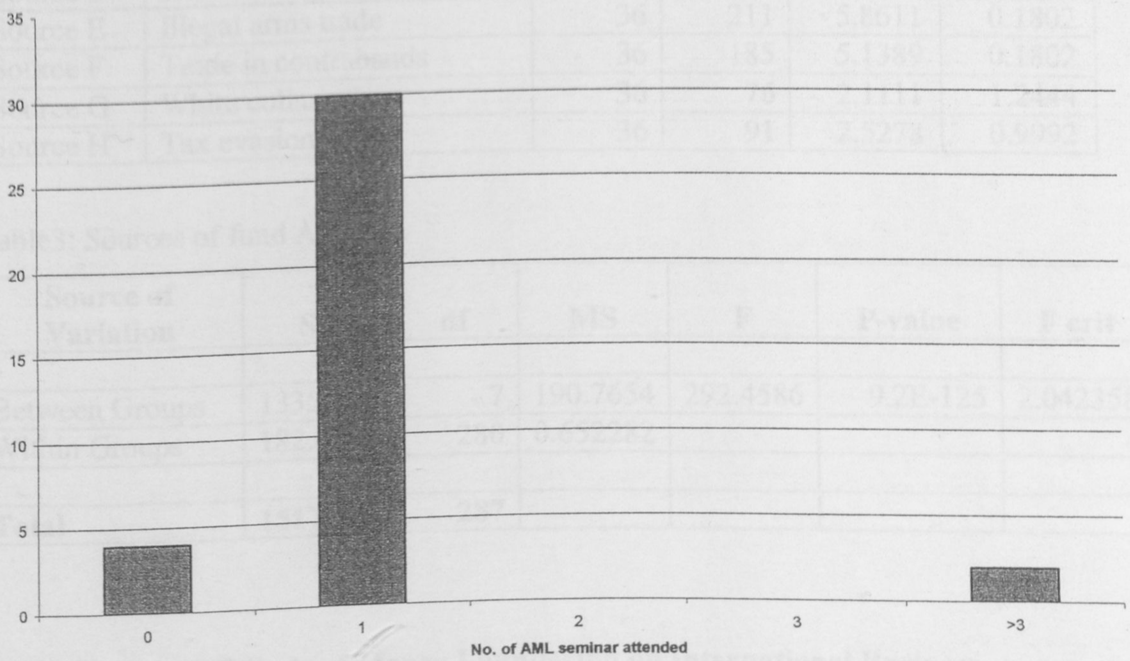
Table 1: Descriptive statistics of the respondents' years of experience

Descriptive statistic	**Value**
Mean	9.5
Standard Error	0.439
Median	10
Mode	7
Standard Deviation	2.635
Sample Variance	6.943
Kurtosis	- 0.667
Skewness	- 0.124
Range	10
Minimum	4
Maximum	14
Sum	342
Count	36

The most experience respondent had fourteen years of experience while the least experienced had your years of experience. The average year of experience was nine and a half years. The importance of this is in determining how knowledgeable the respondents are likely to be on money laundering issues especially at policy level.

It was found our that all the thirty six responding banks had anti-money laundering policies and that there was a designated member of staff in-charge of dealing with money laundering issues. Further, eighty eight percent of the respondents were found to have attended at least one seminar on money laundering. Figure 3 shows a plot of the number of money laundering seminar attended by the respondents.

Figure3: Plot on the number of seminars on money laundering attended by respondents



4.2 Sources of Laundered Funds in Kenya

Table 2 shows the means of the various sources of laundered funds which in Kenya. Corruption was noted as the most significant sources of laundered funds in Kenya. This was closely followed by white collar crime and tax evasion. The least significant source of laundered funds were human trafficking and violent crime. Analysis of variance on the data confirmed that there were significant differences in the sources of laundered funds as can be seen in table 3. The F-value obtained is higher than both the F-critical and the p-value. This, therefore, indicates that there is significant difference in the sources of laundered funds in Kenya. To achieve results in the fight against money laundering, significant efforts and resources to fight money laundering should therefore be geared towards the most serious ones, this being corruption and white collar crime.

Table 2: Sources of laundered funds in Kenya – mean values

Groups	Description	Count	Sum	Average	Variance
Source A	Corruption	36	74	2.0556	1.0254
Source B	Drug trafficking	36	119	3.3056	1.0183
Source C	Violent crime	36	269	7.4722	0.2563
Source D	Human trafficking	36	270	7.5000	0.3143
Source E	Illegal arms trade	36	211	5.8611	0.1802
Source F	Trade in contrabands	36	185	5.1389	0.1802
Source G	White collar crime	36	76	2.1111	1.2444
Source H	Tax evasion	36	91	2.5278	0.9992

Table3: Sources of fund ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1335.358	7	190.7654	292.4586	9.2E-125	2.042358
Within Groups	182.6389	280	0.652282			
Total	**1517.997**	**287**				

4.3 Perceived Effects of Money Laundering on International Business

Effects of money laundering on international business will differ from country to country due to the nature of sources of funds, the level of international business as well as level of money laundering existing in an economy. A total of twenty six effects were considered in this study. Respondents were requested to classify the effects of each on a five points Likert scale with values 1 indicating 'not at all' and value five indicating 'to a very great extent'. Table 4 shows the mean and variances of the twenty six factors.

Table 4: Perceived effects of money laundering on international business means

Groups	*Count*	*Sum*	*Average*	*Variance*
E1	36	104	2.889	0.787
E2	36	156	4.333	0.571
E3	36	165	4.583	0.936
E4	36	142	3.944	0.283
E5	36	129	3.583	0.250
E6	36	141	3.917	0.079

E7	36	54	1.500	0.943
E8	36	117	3.250	0.193
E9	36	146	4.056	0.740
E10	36	158	4.389	0.244
E11	36	102	2.833	0.714
E12	36	94	2.611	0.416
E13	36	128	3.556	0.425
E14	36	135	3.750	0.707
E15	36	84	2.333	0.743
E16	36	72	2.000	0.171
E17	36	78	2.167	0.143
E18	36	135	3.750	0.364
E19	36	135	3.750	0.364
E20	36	108	3.000	0.171
E21	36	138	3.833	0.314
E22	36	78	2.167	0.314
E23	36	135	3.750	0.707
E24	36	135	3.750	0.364
E25	36	102	2.833	0.314
E26	36	132	3.667	0.743

An ANOVA test carried out indicated that there were significant differences between the carious effects. Table 5 shows the results of the ANOVA test;

Table 5: ANOVA test results on perceived effects of money laundering

Source of Variation	**SS**	**df**	**MS**	**F**	**P-value**	**F crit**
Between Groups	591.941	25	23.677	51.291	1.213E-154	1.518
Within Groups	420.083	910	0.461			
Total	1012.02	935				

The results of the anova test shows that there were significant differences between the various effects identified. The F-value of 51.291 obtained was higher than the F-critical value of 1.518 at 95 percent confidence level. The P-value confirmed the results.

The most significant perceived effect of money laundering on international business was found to be 'assets seizure' followed by 'time loss and delays due to bureaucratic processes' and 'increased investigation costs, fines and legal costs'. The least significant perceived effect of money laundering on international business was the 'loss of reputation of the whole Kenyan banking industry' followed by 'capital flight from the economy as a whole' and 'increase in armed crime. '

Factor analysis performed indicated that 3 major factors could be extracted from the 26 variables. Table 6 shows that the three factors extracted explained 92.6 percent of the variance.

Table 6: Factors extraction

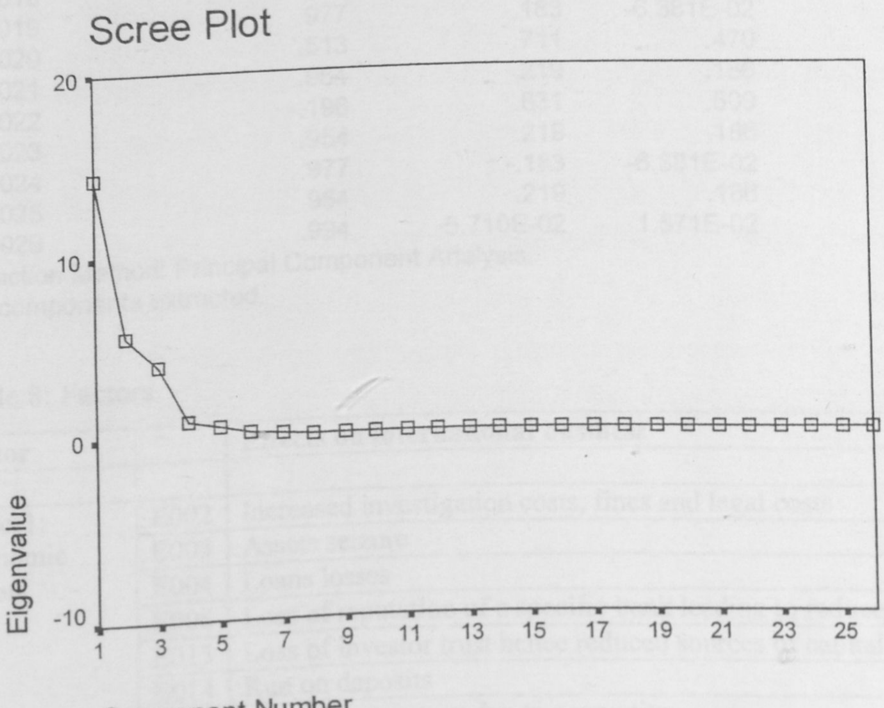
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	14.408	55.416	55.416	14.408	55.416	55.416
2	5.635	21.674	77.090	5.635	21.674	77.090
3	4.022	15.469	92.558	4.022	15.469	92.558
4	.960	3.693	96.251			
5	.538	2.070	98.321			
6	.284	1.092	99.413			
7	.153	.587	100.000			
8	1.099E-15	4.226E-15	100.000			
9	7.861E-16	3.024E-15	100.000			
10	5.296E-16	2.037E-15	100.000			
11	4.899E-16	1.884E-15	100.000			
12	3.262E-16	1.255E-15	100.000			
13	1.046E-16	4.025E-16	100.000			
14	7.334E-17	2.821E-16	100.000			
15	3.150E-17	1.212E-16	100.000			
16	-1.838E-17	-7.070E-17	100.000			
17	-2.241E-17	-8.621E-17	100.000			
18	-3.086E-17	-1.187E-16	100.000			
19	-1.110E-16	-4.268E-16	100.000			
20	-3.227E-16	-1.241E-15	100.000			
21	-4.979E-16	-1.915E-15	100.000			
22	-5.591E-16	-2.150E-15	100.000			

23	-8.111E-16	-3.119E-15	100.000			
24	-9.802E-16	-3.770E-15	100.000			
25	-2.317E-15	-8.912E-15	100.000			
26	-3.046E-15	-1.171E-14	100.000			

Extraction Method: Principal Component Analysis.

The extraction of three factors was further supported by the scree plot obtained from the data. See figure 4.

Figure 4: Scree Plot



The scree plot seemed to taper off after the third factor, thus confirming the suitability of the three factors selected. The effects were therefore grouped into three major groups as shown in table8 based on the component matrix as per table 7.

Table 7: Component matrix

	Component 1	2	3
VAR001	.227	.732	-.295
VAR002	.679	-.635	.263

VAR003	.943	-.292	-.133
VAR004	.603	.267	-.175
VAR005	.272	-.150	.864
VAR006	.954	.219	.186
VAR007	-.710	.523	.436
VAR008	-.711	.234	.434
VAR009	-3.988E-03	-.530	.830
VAR010	.259	-.647	.676
VAR011	-.557	-5.494E-02	.714
VAR012	.131	.952	-.216
VAR013	.695	.571	-.217
VAR014	.954	.219	.186
VAR015	.994	5.710E-02	-1.571E-02
VAR016	.513	.711	.470
VAR017	-.853	.454	.240
VAR018	.977	-.183	-6.381E-02
VAR019	.977	-.183	-6.381E-02
VAR020	.513	.711	.470
VAR021	.954	.219	.186
VAR022	-.196	.831	.509
VAR023	.954	.219	.186
VAR024	.977	-.183	-6.381E-02
VAR025	.954	.219	.186
VAR026	.994	-5.710E-02	1.571E-02

Extraction Method: Principal Component Analysis.
a 3 components extracted.

Table 8: Factors

Factor		**Effects on international business**
Factor1: Economic effects	E002	Increased investigation costs, fines and legal costs
	E003	Assets seizure
	E004	Loans losses
	E006	Loss of reputation of a specific bank leading to reduced international acceptance
	E013	Loss of investor trust hence reduced sources of capital
	E014	Run on deposits
	E015	Poor infrastructure due to corruption
	E018	Increase in white collar crime
	E019	Increased impact of poverty on the poor
	E021	High inflation leading to depressed exports
	E023	Increase in official corruption leading to red tape
	E024	Increase in petty corruption
	E025	Hoarding of commodities
	E026	Adverse balance of payment

Factor 2: Financial markets effects	E001	Termination of corresponding banking facilities
	E007	Loss of reputation of the banking industry whole Kenyan banking industry
	E008	Customer confidentiality concerns
	E012	Take over of a bank by criminal elements
	E016	Capital flight from the economy as whole
	E017	Increase in armed crime hence less investors appeal
	E020	Adverse currency volatility
	E022	Reduced economic activities due to excess expenditure on sterile sectors of the economy
Factor 3: Ease of business transactions effects	E005	Stock value declines
	E009	High transactional costs
	E010	Time loss and delays due to bureaucratic processes
	E011	Temptation of employees to commit fraud

The effects can thus be grouped into three major factors. That is; economic effect factor; financial markets effects factor and the ease of business transaction effects factor. This implies that when considering the broad categories of perceived effects of money laundering, the categories may be those mentioned above. The most significant perceived effect of money laundering on international business is, however, assets seizure. This would be interpreted as the fear by the international business community fear of their assets being seized in money laundering investigations thus limiting the ease of capital movement.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The main objectives of this study was to determine the key sources of laundered funds in Kenya and the perceived effects of money laundering on international business in Kenya. The study found out that the banking industry perceive the key source of laundered funds to be money obtained through corruption. The next most important sources were found to be white collar crime and tax evasion. The least significant source of laundered funds in the country was found to be human trafficking. To this end, anti-money laundering efforts in the country should therefore be mainly focussed toward corruption and white collar crime.

The most significant perceived effect of money laundering on international business in Kenya was found to be assets seizure. Respondents explained that most customers feared that the closure of, say a bank, by the regulatory authorities, such as what happened to Charterhouse Bank, leading to seizure of the banks assets and the customers deposits held by such a bank. This was especially the case conducting international business as it would lead to significant losses due to loss of customers and the inability to meet future business needs to the failure to access assets held in such institutions.

Other findings of the study were that banks in Kenya are generally aware of the problem of money laundering since all the banks which responded to the survey had documented policies on money laundering and specific members of staff designated to deal with the issues of money laundering. The bulk of the respondents were also found to have attended anti-money laundering training seminars.

5.2 Recommendations

Further research is recommended on the perceived effects of money laundering on other industries such as real estate, precious metals trade; the stock market and the tourism sector. These are some of the industries commonly targeted by money launders. There is need to also carry out research to determine how well the country is prepared on the fight to eradicate money laundering. Research is also required to determine the effect that developments in the information technology is having on the money laundering. This is because information technological advancement may help increase the ease of money laundering as well as enhance measure to address the same.

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Appendix I

QUESTIONNAIRE

Part A – Biodata

Name of the banking institutions: .... (Optional)

Title of respondent: ....

Number of years with this bank ....

Number of years in the banking industry ....

Does the bank have foreign branches? (Tick as appropriate) Yes [ ] No [ ]

Does the bank have substantial foreign shareholding? Yes [ ] No [ ]

Part B

Does your bank have a written Anti-Money Laundering Policy? (tick as appropriate)

Yes [ ] No [ ]

Is there a dedicated member of staff in charge of money laundering issues within the bank or to whom such matters are reported to?

Yes [ ] No [ ]

How many anti-money laundering training sessions or seminars did you attend during the year 2007?

None [ ] One [ ] Two [ ] Three [ ] More than three [ ]

If your bank was to report to the Central Bank on all transactions that exceed KShs. 350,000 how plausible would that be?

Impossible	A little bit Implausible	Moderately plausible	Very plausible	Extremely plausible
[ ]	[ ]	[ ]	[ ]	[ ]

Part C

1. How would you rank the following as the main source of money laundered in Kenya? (Start with (1) referring to the most important on to 9 as least important)

Corruption [ ]

Drug trafficking [ ]

Violent crime [ ]

Human trafficking [ ]

Illegal arms trade [ ]

Trade in contrabands [ ]

White collar crime [ ]

Tax evasion [ ]

Others [ ] (specify) ....

2. Listed below are effects of money laundering on international business. To what extent do you consider each factor to affect international business in Kenya.

Effects on international business	**Not at all**	**To a little extent**	**Moderate extent**	**To a great extent**	**To a very great extent**
Termination of corresponding banking facilities					
Increased investigation costs, fines and legal costs					
Assets seizure					
Loans losses					
Stock value declines					
Loss of reputation of a specific bank leading to reduced international acceptance					
Loss of reputation of the banking industry whole Kenyan banking industry					
Customer confidentiality concerns					
High transactional costs					
Time loss and delays due to bureaucratic processes					
Temptation of employees to commit fraud					
Take over of a bank by criminal elements					

Loss of investor trust hence reduced sources of capital					
Run on deposits					
Poor infrastructure due to corruption					
Capital flight from the economy as whole					
Increase in armed crime hence less investors appeal					
Increase in white collar crime					
Increased impact of poverty on the poor					
Adverse currency volatility					
High inflation leading to depressed exports					
Reduced economic activities due to excess expenditure on sterile sectors of the economy					
Increase in official corruption leading to red tape					
Increase in petty corruption					
Hoarding of commodities					
Adverse balance of payment					

Appendix II

Variables Names

Variable	Description of the Variable
Var001	Termination of corresponding banking facilities
Var002	Investigation costs and fines
Var003	Assets seizure
Var004	Loans losses
Var005	Stock value declines
Var006	Loss of reputation of a specific bank
Var007	Loss of reputation of the banking industry
Var008	Customer confidentiality concerns
Var009	High transactional costs
Var010	Time loss and delays due to bureaucratic processes
Var011	Temptation of employees to commit fraud
Var012	Take over of a bank by criminal elements
Var013	Loss of investor trust
Var014	Run on deposits
Var015	Significant legal costs
Var016	Capital flight
Var017	Increase in armed crime
Var018	Increase in white collar crime
Var019	Increased impact of poverty on the poor
Var020	Currency fluctuation
Var021	Increased inflation
Var022	Reduced economic activities due to excess expenditure on sterile sectors
Var023	Increase in official corruption
Var024	Increase in petty corruption
Var025	Deterioration in infrastructure
Var026	Adverse balance of payment