

**FACTORS PROMOTING THE GROWTH OF MONEY LAUNDERING PRACTICES
IN KENYA**

BY

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19

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

In Kenya, despite efforts to combat money laundering and promote financial transparency, the study's primary aim was to examine the factors driving its persistence. This study analyzed the impact of tax evasion, financial regulations, cross-border trade, and bank failure to detect suspicious transactions on money laundering. Anchored in theories like the Paradox of Blackmail, Crying Wolf Theory, Transparency-Stability Theory, and Economic Theory, a descriptive research design was employed. A target population of 580 respondents from specific institutions was sampled (n=240). Findings indicated positive associations between money laundering and tax evasion ($\beta = 0.268$), financial laws ($\beta = 0.026$), cross-border trades ($\beta = 0.287$), and bank failure to detect suspicious transactions ($\beta = 0.136$). Recommendations include bolstering tax enforcement, enhancing financial regulations, fostering cross-border collaboration, and investing in bank detection capabilities. Future research avenues encompass in-depth investigations into money laundering schemes, behavioral analysis of money launderers, and the impact of emerging financial technologies on money laundering practices

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DEDICATION

I dedicate this project to my father, the late G. Z. Owiti, who instilled a strong foundation of education in me and to my family; you have endured my absence for long hours I had to be away from you during my studies. Thank you very much, God bless you.

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ABBREVIATIONS AND ACRONYMS

AML	Anti-Money Laundering
CBK	Commercial Bank of Kenya
FCA	Financial Conduct Authority
FICA	Financial Intelligence Centre Act
FIU	Financial Intelligence Unit
FSF	Financial Stability Forum
GDP	Gross Domestic Product
IMF	International Monetary Fund
KBA	Kenya Bankers Association
KYC	Know Your Customer
ML	Money Laundering
SPSS	Statistical Package for Social Sciences
US	United States
USD	United States Dollar

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The issue of money laundering emerged across the world from criminal incidents like the Paradise Papers, the Swiss leaks, the Panama reports, and investigations by other jurisdictions like the Jersey Island (Barsoum, 2018) which demonstrated the role played by offshore entities in perpetrating money laundering activities. This raised the call for proper regulatory framework to curb money laundering activities. According to Korejo, Rajamanickam, & Said (2021), money laundering involves converting illicit money (money received from criminal activities such as corruption), into legitimate money by intermixing it with the licit money. This makes it difficult to distinguish the legitimacy of the money laundered (Korejo, Rajamanickam, & Said, 2021, p. 726). Money being laundered often comes from criminal activities such as piracy, illegal trade, corruption, drug trafficking, and terrorist activities. Indeed, money can be laundered to champion the course of a terrorist group. It also facilitates the ambitions of other criminals such as drug traffickers, insider dealers, organized criminals, and tax evaders (Hendriyetty & Grewal, 2017).

Money launderers are increasingly using sophisticated techniques to champion their criminal activities. They often open fictitious firms disguised as trading on legitimate products and services. Some even open NGOs which are used as conduits to launder money. Sullivan (2015) observed that, the financial services industry provides money launderers with favorable opportunity and environment to clean the “dirty money.” The advancement in the internet offers necessary speed and anonymity necessary to evade law enforcers. The increase in the

use of offshore financial havens and jurisdictions with weak financial regulations provides alternative channels the money launderers use to facilitate their crimes (Sullivan, 2015).

Financial institutions, especially banks, are the preferred avenues money launderers use to facilitate their activities. This is because banks offer a variety of services and products like funds transfer, bank drafts, and foreign correspondent accounts among others which are used to relocate or transfer funds with legitimate appearance (Usman, 2014). More so, the growth of the banking industry across the globe as well as advancement in technology in money transfers and other transactions makes it difficult to know the origin of money. Nowadays, the cryptocurrency and blockchain technologies help criminals to exchange illegitimate money into cryptocurrencies hence making it difficult to determine their legitimacy. Therefore, the opportunities that exist for criminals to launder money across the globe pose a great challenge to law enforcers and the implementation of anti-money laundering legal framework.

1.1.1 Money Laundering

For the past one decade, the amount of money laundered globally each year is equivalent to 2 - 5% of global GDP, or \$800 billion - \$2 trillion USD (UN Office on Drugs and Crime, 2022). Money laundering has great negative effects on a society. It causes economic instability and distortion. Those who launder money get richer. This causes wealth disparity that brings imbalance in the society as it can lead to instability. Money laundered are also unaccounted for hence they do not generate tax revenue to the government. This means a government would not collect enough revenue to fund its development schemes hence affecting the general population who would have been the beneficiaries of such developments (Kumar, 2012).

Even though there are no specific data on the trends in money laundering in Kenya, there are several cases of money laundering being prosecuted in Kenya courts as well as

incidences of people being found with money, they cannot explain their sources. A 2019 report by United States Department of State Bureau for International Narcotics and Law Enforcement Affairs shows that Kenya is vulnerable to money laundering which occurs both in formal and informal industries fueled by criminal operations domestically and internationally. Kenya is East Africa's financial hub with sophisticated growth in its financial and banking sectors. This creates a haven for money launderers (Ngugi, 2019).

In February 2022, a Bahraini national, Khalid Hamad, was arrested for failure to explain the source of \$977,075 he was carrying when he entered the country. The High Court granted Assets Recovery Agency authority to seize the money pending the conclusion of the investigation concerning the funds' source (Kiplagat, 2022). In April 2022, the High Court froze Sh5.6 billion in six bank accounts suspected of proceeding money laundering activities (Ndege, 2022). However, the government has made several efforts to combat money laundering. In 2019, the Treasury ministry formed an anti-money laundering task force of 30 State agencies to crack down on money laundering activities. The Anti-Money Laundering law also requires anyone entering the country carrying more than \$10,000 must declare the source and the purpose of the funds (Ngugi, 2019).

In Kenyan's society, despite the evident impacts of money laundering, it is difficult to quantify the impacts of money laundering on the economy. However, there are examples of businesses collapse linked to money laundering. The collapse of grocery store Nakumatt is linked to money laundering. An audit by the Central Bank of Kenya in 2016 found that Nakumatt was using a system where money for pay creditors and trading were banked in their lawyer's client account at the defunct Charterhouse Bank. Huge cash payments would be channeled via secret accounts disguised as legitimate suppliers (Kisero, 2020). The collapse of Nakumatt deprived the government of tax revenue while making thousands of employees

jobless. Therefore, money laundering can greatly affect the economy because it can collapse firms like banks and retail outlets.

Lack of financial transparency is a great enabler of money laundering. It creates an avenue where money that originates from illicit activities such as corruption and fraud enter the financial system of a country without being detected. For instance, money from corrupt deals can get into the financial system of a country if there is no effective regulatory framework for disclosure. According to Transparency International (2022), anonymous trusts and companies hide the identity of the people at the source of funds which make them vehicles of laundering money. These companies bribe regulatory officials in some countries to influence their dirty deals (Transparency International, 2022).

Anonymity also makes it easy for these people to use the laundered money to purchase various properties and goods. For instance, in 2016, the Panama Papers found that over 140 public officials across the world use over 214,000 anonymous offshore entities to launder money. More so, professional intermediaries like lawyers knowingly aid in money laundering by setting up anonymous companies for their clients to receive money disguised as legal fees (Transparency International, 2022). This means that lack of proper financial transparency in a country's financial system is a great enabler of money laundering.

Money laundering practices occur in three major steps, and various methods are used to achieve this. It starts with placement where the laundered money is introduced into the financial system of a country. In the second step, layering occurs where complex transactions are done to conceal the illegal source of the money. In the final step, the money is then integrated into the system as legitimate wealth by investing it in various activities (Demetrias & Vassileva, 2020).

Money launderers use various methods to further their laundering practices. Sometimes, large sums of money are deposited in different bank accounts through several small transactions. They can also use money mules who open several bank accounts and deposit the laundered money into them. Money launderers hire money mules for these activities. Money launderers can also open shell corporations, firms which do not have any known business activities, assets, or employees. They are usually used to raise funds for startup firms. Fraudsters can create shell corporations to deposit their laundered money there. Money launderers can also invest in mobile commodities like gold (Teichmann, 2017).

1.1.2 Anti- Money Laundering Legal Framework

Toroitich (2010) posits that money laundering primarily arises from inadequate laws, lack of proper AML laws in neighboring countries, unreported cash flows, regulatory problems, and corruption at the country's borders. Hence, anti-laundering measures are crucial to the citizens and the entire economy of a country. Studies show that the money laundering threats are socially, politically, and economically constructed (Van Duyne, Harvey, & Gelemerova, 2018). Therefore, the United Nation Conventions and other treaties have put up a legal framework for countries to follow in developing their legal system to deal with money laundering (Ping, 2010). One such convention is the Palermo Convention (UN Convention against Transnational Organized Crime) which gives the legal framework for definition of money laundering in Article 6 of the Convention as:

The conversion or transfer of property, knowing that such property is the proceeds of crime, for the purpose of disguising the illicit origin of the property or of helping any person who is involved in the commission of the predicate offence to evade legal consequences of his/her action; the concealment or disguise of the true nature, source, location, disposition, movement or ownership of or rights with respect to property, knowing that such property is the

proceeds of crime; the acquisition, possession or use of property, knowing at the time of receipt that such property is the proceeds of crime; participation in, association with or conspiracy to commit, attempt to commit and aiding and abetting, facilitating and counselling the commission of any of the offences established in accordance with this article” (Palermo Convention, 2000, Article 6).

The article requires each State Party to adopt, in accordance with public policy principles of its domestic law, legislations and other measures to make it a criminal offense for those who commit money laundering crime. It also requires a legal basis for cooperation among member states’ law enforcers, and judicial and administrative authorities concerning issues like extradition and mutual legal assistance.

Besides the Palermo Convention, the Financial Action Task Force (FATF), is the independent global intergovernmental body tasked with fighting against money laundering in the global financial system. In 2003, it issued updates of 40 recommendations for improving the legal system of its member states, and improving cooperation in fighting money laundering (Korejo, Rajamanickam, & Said, 2021). Even though these recommendations do not form part of international laws, they are adopted and ratified by world governing bodies like the UN Security Council, IMF, and World Bank.

1.1.3 Financial Sector of Kenya

The Kenyan financial sector is relatively developed compared to other sub-Saharan countries. It is the third largest in Sub-Saharan Africa. The Kenyan financial system comprises various commercial banks, insurance companies, non-bank financial institutions, and a range of stock exchange platforms. The commercial banks have experienced a three-fold growth for the past four decades. The non-bank financial institutions as well as insurance companies have also experienced significant growth in the same period (CBK, 2020). The growth of other non-

bank institutions, cryptocurrency use, and online financial transactions platforms pose great challenges in regulation as some of them are difficult to regulate. For instance, the cryptocurrency trading platforms lack legal framework for regulation, and they pose a weak link in anti-money laundering campaigns.

1.2 Statement of the Problem

Money laundering is an inescapable global matter with unembellished economic, social, and security implications (United Nations Office on Drugs and Crime, 2019). By being conversant with the fact that money laundering practices are universal across the world, each country can be unique concerning factors abating money laundering. This is true with regards to legal and regulatory framework of each country. In Kenya, money laundering remains rampant despite the various initiatives to curb the vice such as financial transparency practice. Wambui (2021) reported that an annual International Narcotics Control Strategy report in the U.S. ranked Kenya as one of the leading money laundering jurisdictions across the world. According to the report, Sh178 billion or USD \$1.8 billion were laundered in the country between January to August 2020 (United States Department of State, 2021).

Despite the available regulatory and legal frameworks that exist in the country, financial transparency breach such as money laundering is still significant. Toroitch (2010) identified inadequate laws, lack of proper AML laws in neighboring countries, unreported cash flows, regulatory problems, and corruption at the country's borders as the key challenges CBK faces in AML campaign. However, his work solely focusses on CBK, but not on other players in AML activities. Njagi (2009) found that despite availability of adequate KYC strategies to curb money laundering at the banks, these banks are still reluctant to comply with these strategies. Mwithi, & Kamau (2015) found that Kenyan legal framework currently being implemented by CBK, and the banks are sufficient in combating money laundering, but incidences of money

laundering are still common across Kenyan financial institutions. Michugu (2016) found that AML regulations increase reporting costs but reduced external and internal fraud of Chase Bank, and increased customer and investor confidence on the bank. These three studies focused on strategies to curb money laundering but not factors contributing to the same. Contextually, these studies studied financial institutions rather than the regulators and regulatory issues.

These studies did not point at the factors which contributed to these money laundering activities in Kenya outside the banking system. Even the strategies identified such as KYC and other legal provisions majorly focus on banks rather than other areas vulnerable to money laundering. Therefore, there are contextual gaps in past studies concerning this topic. Most studies focus on the challenges faced by commercial bank or central bank in combating money laundering practices but not the route cause, the factors contributing to those challenges. A knowledge gap which exists here can be filled by this study by exploring the primary factors which contribute to money laundering incidences that often happen in Kenya. This will provide a good starting point in taking proactive measures to combat money laundering. There are several studies that have investigated factors contributing to money laundering across the world. However, it is rare to find the studies focused on Kenyan cases. Despite all-embracing efforts to combat it, money laundering continues to boom, imposing a comprehensive examination of its fundamental determinants. Therefore, this study is necessary to bridge this knowledge gap by examining factors contributing to money laundering practices in Kenya by examining the intricate interplay of tax evasion, financial laws and regulations, cross-border trades, and bank failures in detecting suspicious transactions, and their collective impact on the facilitation and perpetuation of money laundering activities.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to assess the factors contributing to the prevalence of money laundering practices in Kenya.

1.3.2 Specific Objective

- i. To analyze the effect of tax evasion on money laundering practices in Kenya.
- ii. To determine the effect of financial laws and regulation on money laundering practices in Kenya.
- iii. To evaluate the effect of cross-borders' trades on money laundering practices in Kenya.
- iv. To establish the effect of banks failure to detect on money laundering practices in Kenya.

1.4 Hypothesis Test

H₀₁ Tax evasion has no significant effect on money laundering practices in Kenya.

H₀₂ Financial laws and regulations have no significant effect on money laundering practices in Kenya.

H₀₃ Cross-border trades have no significant effect on money laundering practices in Kenya.

H₀₄ Banks' failure to detect suspicious activities has no significant effect on money laundering practices in Kenya.

1.5 Justification of the study

There was limited literature concerning the factors contributing to money laundering practices. This makes it difficult to understand and address the increasing cases of money

laundering and corruption associated with government resources. Most studies just address the challenges associated with money laundering but do not assess what is causing those challenges. Therefore, this study will contribute to this knowledge gap. It will bring out the grey areas in money laundering practices and make recommendations on how to combat money laundering crime in Kenya. Money laundering is a crime that creates a vicious cycle in a society because it is related to other crimes like terrorism. Therefore, addressing factors contributing to this crime will help the government with necessary information to effectively fight against this crime.

There are many factors promoting the growth of ML in Kenya. However, this study picked the above four factors in the research objectives due to specific reasons:

Money laundering laws are designed to prevent, detect, and punish money laundering activities. Weaknesses or gaps in these laws can create loopholes that criminals exploit. By studying how these weaknesses contribute to money laundering in Kenya, you can provide insights into the legal framework's effectiveness and identify areas for improvement.

Tax evasion involves intentionally underreporting income or inflating deductions to avoid paying taxes. This can generate illicit funds that need to be "cleaned" through money laundering. Investigating the link between tax evasion and money laundering in Kenya helps uncover the interconnectedness of financial crimes and how addressing tax evasion might indirectly impact money laundering.

Unregulated or inadequately controlled borders can facilitate the movement of illicit funds across national boundaries. Criminals can exploit these weaknesses to move money in and out of the country without detection. By assessing the impact of unregulated border trades on money laundering in Kenya, the researcher can highlight the significance of border control measures in curbing such activities.

Financial institutions play a crucial role in detecting and reporting suspicious transactions as part of anti-money laundering (AML) efforts. When banks fail to do so, it becomes easier for illicit funds to enter the legitimate financial system. Investigating this aspect sheds light on the importance of robust AML compliance procedures within the banking sector.

While money laundering is undoubtedly influenced by a multitude of factors, this research has honed in on specific areas that wield substantial influence over the issue within the context of Kenya. These research objectives have been strategically crafted to shed light on key vulnerabilities, thereby enabling the provision of practical recommendations to relevant stakeholders. These recommendations are intended to guide the actions of policymakers, law enforcement agencies, and financial institutions, ultimately leading to the mitigation of the proliferation of money laundering practices.

Notably, this study will be significant to the Central Bank of Kenya (CBK) as it will provide insights into the challenges surrounding the reporting of suspicious transactions by banks. Armed with this knowledge, collaborative efforts can be initiated to rectify these issues, ensuring more effective reporting mechanisms. Additionally, the CBK, in conjunction with the Assets Recovery Agency and the Financial Reporting Center, will gain a nuanced understanding of the shortcomings within the Proceeds of Crime and Anti-Money Laundering Act (POCAML) and the Proceeds of Crime and Anti-Money Laundering Regulations (POCAMLRL). These insights may prompt advocacy for legislative amendments to catalyze more robust anti-money laundering (AML) campaigns.

The Kenya Revenue Authority will likewise benefit from this study by acquiring insights into the intricate relationship between tax evasion and money laundering. Armed with this knowledge, the authority can take measures to close existing loopholes that facilitate tax evasion, thereby indirectly curbing money laundering activities.

Furthermore, the Directorate of Criminal Investigations (DCI), the Office of the Director of Public Prosecutions (ODPP), and other law enforcement bodies can utilize the findings to address the issue of illicit cross-border trade occurring along Kenya's borders. This comprehensive approach to addressing money laundering vulnerabilities promises a multifaceted strategy for combating this financial malpractice effectively.

1.6 Scope of the Study

This research aimed to conduct an in-depth investigation and analysis of the specific drivers contributing to the proliferation of money laundering practices within the Kenyan context. The study placed particular emphasis on four key dimensions: tax evasion and its correlation with money laundering, the influence of weak financial laws and regulations, the impact of cross-border trades, and the role of banks in detecting and preventing money laundering activities. Furthermore, this investigation was constrained by certain parameters, including an assessment of institutional effectiveness, the adoption of advanced technologies, and the evolving strategies employed by money launderers.

Within the context of this study, the primary focus was directed toward six pivotal institutions tasked with combating money laundering in Kenya. These institutions encompassed the Kenya Bankers Association, the Financial Reporting Centre (FRC), the Kenya Revenue Authority (KRA), the Customs Department, the Directorate of Criminal Investigation (DCI), the Assets Recovery Agency, the Central Bank of Kenya (CBK), and the Office of the Director of Public Prosecution (ODPP). The study engaged participants holding various positions within these institutions, ranging from senior officers to supervisors and junior officers responsible for addressing money laundering concerns.

Data collection for this research was conducted through the administration of questionnaires, with the data collection period spanning from June to August 2023. This

comprehensive study seeks to shed light on the intricate dynamics of money laundering in Kenya and provide valuable insights into the multifaceted efforts to combat this illicit financial activity.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, an extensive examination of the existing literature pertaining to money laundering is presented. This comprehensive review encompasses various dimensions, including the fundamental understanding of money laundering, the sequential stages through which illicit funds are laundered, the theoretical underpinnings employed to elucidate this phenomenon, and the legal dimensions governing money laundering activities. Furthermore, this chapter will delve into an exploration of the factors that serve to mitigate and counteract money laundering, along with a detailed exploration of the pivotal roles played by regulatory authorities in the concerted efforts to combat money laundering.

The literature review within this chapter aims to provide a comprehensive foundation for the subsequent analysis and investigation of money laundering practices, offering insights into its intricacies, contributing factors, and the multifaceted strategies deployed to prevent and address this financial malpractice. It serves as the theoretical scaffold upon which the empirical investigation in this study is constructed, facilitating a deeper understanding of the complex dynamics surrounding money laundering.

2.2 Theoretical Framework

There are several theories that can be used to explain money laundering and the factors that abate this practice. This subtopic covered three major theories: The Paradox of Blackmail, Economic Theory and Transparency-Stability Theory.

2.2.1 The Paradox of Blackmail

This theory was espoused by Glanville L. Williams (1954) who posits that “two things that taken separately are moral and legal whites together make a moral and legal black” (Williams, 1954, p. 163). That means it is licit and legal to threaten one to reveal his/her secrets. It is also lawful to ask him/her for money. However, if these actions are undertaken simultaneously, together, it constitutes blackmail which is illicit and illegal. This holds only if the blackmailer is the one who imitates the act. However, if person being blackmailed is the one who originates the act, it is bribery hence not illicit but illegal (Block, Kinsella, & Hoppe, 2000). Therefore, in the blackmail paradox, the first layer are two distinct behaviors, and the second layer is the paradoxical fact that if these two behaviors are merged, they become illegal (Rokaj, 2015).

In money laundering, the unlawful layer is the first stage which is placement- the act which generates the illegal proceeds. Using the blackmail paradox, when an offer to engage in placement transforms into threats, it consequently becomes an offense. This theory can be used to explain tax evasion and suspicious transactions at banks. Chen et al. (2018) delineate a suspicious transaction as one whereby digital evidence makes it suspect of money laundering activities. If in a placement process, money launderer threatens bank officials from reporting their suspicious transactions, it becomes a blackmail. A government official involves in investigating or dealing with tax fraud can also threaten suspects to solicit bribe from them to drop their case. If the suspect yields to the demand and give out a bribe, it becomes illegal and illicit.

If the threat involves soliciting for deals such as tenders, it becomes a blackmail too. The harm and wrongfulness produced by the first layer, the offense which generate the illegal proceeds in money laundering, poisons the second layer which is combining the two behaviors.

This explains why money laundering carries the harm, blame or wrongfulness of the first layer. Money launders can use blackmail in their activities (Rokaj, 2015).

2.2.2 Economic Theory

The economic classical theory proposed by Adam Smith in 1846 identifies two fundamental factors that determine the behavior of individuals (Ekelund & Hebert, 2007). On one hand, every person acts rationally and aims to maximize his personal utility, a principle which is considered for most decision making performed by the individual. Correspondingly, this principle also governs unlawful undertakings aimed at acquiring personal wealth (Yeandle, Mainelli, Berendt & Healy, 2015). While on the other hand, the personal utility of an economic venture is mainly determined by anticipated costs and revenues, which are ruled by demand and supply laws. In this classical realm of Smith, the state of a country does not lie in the hands of the individual or a firm.

According to Goredama (2014), the individual neither plans to promote public interest nor is he even aware of how much he is promoting, as the intention is for his corresponding security. In other cases, individuals or firms are led by an unseen hand toward a goal that was not the original intention, and thus, the government should protect people from violence and injustice. Ekelund and Hebert, R. (2007) proposed the observable and unpretentious system of natural liberty. In such system, an individual can be left alone to follow his interests according to his ways, provided that he does not violate the laws of justice, and to utilize his industry and capital to engage in competition with any other individual. ML is a practice damaging to citizens because of the unlawful procurement of capital (Kern, 2011).

However, these principles only work if actions are done within the legal framework. Rules of AML do not result in eliminating competition as economic laws and

implementation differ in various countries (Goredama, 2014). Moreover, AML rules and other regulations affect economies differently. However, the assumption of economic classical theory is questionable. State regulations actively set competitive incentives, which promote particular institutional structures (Ampratwum, 2008). Such condition is dangerous, as it could impede instead of accelerate the progress of society toward real wealth and greatness; moreover, it reduces the real value of the annual produce of the land and its labor (Gathii, 2010). This theory was therefore relevant in this study in informing the role of legal capacity in the adoption of AML regulation

2.2.3 Transparency-Stability Theory

The theory argues that increased financial disclosures and reporting contribute to efficient and improved resource allocation because it reduces informational asymmetry (Tadesse, 2006). Banking crises are less likely to happen in countries with properly regulated transparency and disclosure. The theory assumes accounting information as public good, and central banks are financed by taxpayers' money. Therefore, central banks have the obligation to produce extensive disclosures to the public to meet the information need. The fight against ML can be won only if there are specific forms of enforcement instituted. One such enforcement is the financial disclosure and reporting initiated by the central banks (Raweh, Erbao, & Shihadeh, 2017). This theory supports the need for banks to provide proper transaction reporting framework to achieve effective oversight of various transactions. It also requires an effective framework for reporting and investigation of suspicious money laundering activities which currently lacking in POCAMLA and POCAMLR.

2.3 Empirical Review

The concept of money laundering (ML) has been in use since early to mid-1990s, when Al Capone, the then American businessman and gangster, deployed launderettes to hide illegal

arms purchased from proceeds of bootleg sales (Unger, 2013). Therefore, money laundering has a long history, but it has evolved over time and has adapted to modern society, digital transformation, and globalization. This causes damages to the society, citizens, states, and companies. It has become a catalyst of illegal activities like terrorism, corruption, and fraud. These activities have decreased transparency, confidence, and integrity of the financial systems of states (Dobrowolski, & Sulkowski 2019).

Money laundering involves illegal activities of hiding money obtained from illicit activities and turning it to legitimate ones (Cotoc et al., 2021). Criminals transform money they obtain from criminal activities like corruption and fraud into legitimate money hence covering their proceeds of crime (Unger, 2013). Therefore, ML is the process of transforming money received from criminal or illegal activities into clean one (Hetemi et al. 2018). ML is a complex process that goes through three main phases. The unclean money is acquired from predicate offence; the chain of the money must be destroyed or made mysterious to avoid being discovered; and the proceeds are reinjected into the economy through business activities to launder and make it clean (Mugarura, 2016). This complexity coupled by globalization has made ML to encompass relationship with administrative, criminal, international, and financial laws (Korejo, Rajamanickam, & Said, 2021).

Vervaele (2013) observed that the derivative offences are no longer confined to drug trafficking proceeds, but it now extends to organized crimes, terrorism, and serious crimes because these crimes have transnational characteristics. The focus is not only limited to illicit money originating from criminality but also illegal and legal money. This makes it complicated to under just the perspective of criminal law (Vervaele, 2013). Even though the AML national laws across the world intended to curb drug trafficking, the international AML commitments

pushed for adoption of laws that broadened the activities classified as ML hence broadening the extent of this offense (Zoppei, 2017).

ML mechanism occur in three stages, placement, layering, and integration. Each state can be complex because of the activities that can be involved. Under placement stage, the proceeds of criminal activities are injected into the financial system of a country. After getting the money from illegal means through activities like theft, bribery, corruption, or fraud, such money is moved from the source and introduced in the financial system like offshore accounts (Demetrias & Vassileva, 2020). This stage is the riskiest one because it has proximity to true income identity hence there is high possibility of being detected by a country's authorities. This is because it involves injecting the illegally acquired money into the financial system of a country (Cotoc et al., 2021).

In the second stage, layering, the launderers perform various complex activities to move money into the financial system. Specifically, it involves various transactions designed to hide the ownership and source of money to make them undetected as proceeds of crime. Often, launderers move money out of their countries. Various financial products or services are used to create these layers to disguise the origin of the funds. For instance, they can create an offshore corporation and wire money to its accounts (Demetrias & Vassileva, 2020).

In the last stage, integration, the unclean money is reinvested or reinjected into a country's economy through various activities such as real estate investment. Once the money is placed and layered, it is reinjected into the legitimate financial system as legitimate tender. It is done from legitimate sources to have a good explanation of the source of money. In this stage, the money is reunited with their launderers. In this stage, it is very difficult to differentiate between illegal and legal money hence they can use the money (Demetrias & Vassileva, 2020). Various methods are used to launder money nationally or internationally. In

a national level, launderers can add cash “to the cash registry of a cash-intensive business.” On an international level, they can deposit the unclean money into banks and use offshore companies to clean it (Ferwerda et al., 2020).

Studies have identified different factors abating money laundering in Kenya and across the world. Qureshi (2017) identified four major factors abating money laundering practices which are: tax evasion, weak financial regulations, failure of banks to detect and report suspicious transactions, and borders trades. These are four primary factors contributing to money laundering and their impacts are very immense.

2.3.1 Tax Evasion and Money Laundering

Tax evasion contribute to hiding of financial assets owned by a company or a person to evade paying taxes. It is both regulatory and legal factor. Tax evaders can transfer their proceeds to foreign banks or invest them on real estate by hiding their identities through ownership reassignment to other people’s names (Qureshi, 2017). There is a strong direct relationship between tax evasion and money laundering. Tax evasion is a predicates money laundering. This commonality is evident by comparing the definitions of money laundering and tax evasion. Both constitute unlawful activities; the illegal acts are committed deliberately and intentionally with an aim to achieve personal gains; both constitute violation of economic or criminal laws; and both acts aimed at concealing or disguising the money being received (Spreutels & Grijseels, 2010).

Generally, the rationale for evading taxes is to accumulate wealth. Some people would want to evade taxes because they believe that the money will not benefit them personally. Some lack concern for public good. Tax evaders sometimes manipulate their tax forms where they end up reporting inaccurate income. If the authorities start investigation about their tax evasion

activities, such people will resort to transferring their money to foreign banks in tax haven jurisdictions (Qureshi, 2017).

They can also invest such money to real estate and other fixed asset properties. They do this through proxies to hide their identities by reassigning the ownership of such properties to those proxies. This is meant to conceal their monetary and nonmonetary properties (Mukhtar, 2018). This becomes tax evasion if the income is not reflected on the income tax return of the said individuals. This can lead to money laundering if the money or the properties are then transferred to tax haven countries surreptitiously. This type of money laundering is majorly conducted by politicians seeking or in power. They usually hide their monetary or nonmonetary properties or move them to foreign countries to avoid scrutiny by tax agencies. Therefore, tax evasion abates money laundering because it is majorly performed by the will of powerful political elites with great influence over anti-money laundering authorities (Qureshi, 2017).

It is essential to analyze tax evasion from a crime perspective. Although the underlying conduct of filing taxes is legal, retaining money which could be paid as taxes is an actual criminal conduct (Oliver, 2002). This means that where there is tax evasion activity does not automatically constitute money laundering. However, if money laundering is occurring, it automatically becomes tax evasion. Money laundering fully constitute tax evasion (Storm, 2013).

The link between money laundering and tax evasion can be achieved by analyzing the reasons why launderers launder money. Some of the primary reasons include they want to hide their wealth; they seek to avoid prosecution; they want to legalize the illegally acquired money; and they want to evade taxes to achieve higher profits. This means that tax evasion is one of the primary reasons of money laundering. It aids them in ensuring that they successfully evade being detected by the authorities (Storm, 2013). Therefore, all tax evasion activities constitute

money laundering. This is because just a single tax evasion process generates criminal tax savings and ensures that the savings are laundered by disguising or concealing their true origin (Kemsley, Kemsley, & Morgan, 2021).

Indeed, a mere act of underreporting tax returns is sufficient ground to attain the false representation condition that exists in money laundering. This minimal effort in tax evasion resembles the actual minimal effort in some money laundering forms like peer-to-peer transfers to evade detection. Underreporting taxable income, irrespective of the amount of money or efforts involved, constitute an intentional effort to conceal the unlawful aspects of the tax savings. This is a money laundering activity in action (Kemsley, Kemsley, & Morgan, 2021).

Besides meeting the necessary conditions that satisfy money laundering, tax evasion process also involve the three steps in money lauding. Tax evasion starts with placing the evaded income into the financial system of a country. In the second step, tax evaders use secretive or complex layers of transactions to conceal the true origin of the funds. Finally, they integrate the funds into the financial economy. Tax evaders must lauder undeclared income to protect them from being traced by the concerned authorities. Tax evasion constitute money laundering, and this is accomplished conducting fraudulent transactions or documentations to mischaracterize the income as gifts exempted from taxes (Yaniv, 199). This process is central to tax evasion (Kemsley, Kemsley, & Morgan, 2021).

In Kenya tax evasion is common. By May 2021, the Kenya Revenue Authority (KRA) had flagged 1,058 individuals and companies suspected of evading taxes. This amounted to Sh132 billion tax evasion within 11 months of the year 2020-2021. This is more than twice the annual reported tax evasion average for the past one decade. Between 2012 and June 2020, there were average 529 annual cases of tax evasion schemes (Munda, 2021). More so, Kenya leads in Africa in terms of tax evasion, untaxed wealth, and money laundering. According to

2020 Financial Secrecy Index of the Tax Justice Network, Kenya leads other African countries in tax evasion and money laundering, ranking position 24 globally ahead of Nigeria at position 34 countries (Namunwa, 2020).

Tavares's (2013) thematic paper focused on the extent and context of the crime, the societal aspects of the fight against money laundering and tax evasion, tax evasion as a multi-faceted challenge, tax havens and interlinking policy fields in relation to tax havens. Unger (2009) only touched on the "precarious relation" between these two offences before it took a mathematical approach to measure money laundering and tax evasion.

Spreutels and Grijseels (2010) discussed tax evasion as a predicate offence for money laundering and looked at, amongst other things, the different legislation and the consequences that resulted from the Organization for Economic Co-operation and Development (OECD) Council Meeting held in 1998. Oliver (2002), who looked at tax evasion as a predicate offence to money laundering, considered international taxation and the hotchpotch of laws in Britain that addressed the issues of money laundering and tax evasion. Taking the above-mentioned articles into consideration, it can be stated that the perception of tax evasion being linked to money laundering has existed for some time.

2.3.3 Financial Regulations and Money Laundering

The weaknesses and inadequate financial regulations and appropriate authorities in a country abate money laundering due to lack of checks. For instance, if the tax authority is weak to question the political elites and the public about their suspicious monetary and nonmonetary assets, it is easy for people to hide taxes and launder money to offshore economies. Money laundering can be curbed by proper financial regulations and when the regulatory authorities have proper policies and legal framework to do so (Qureshi, 2017).

In Kenya, the issue of money laundering is primarily regulated by the Proceeds of Crime and Anti-Money Laundering Act (POCAMLRA) and the Proceeds of Crime and Anti-Money Laundering Regulations 2013 (POCAMLR). The statute and the regulation provide comprehensive administrative and legislative framework for money laundering offence. They also offer a framework for identifying, tracing, seizing, freezing, and confiscation assets from proceeds of crime (Gikonyo, 2018).

The Central Bank is the regulatory authority for financial institutions (Momanyi, 2018). The CBK has strong regulations in place to curb money laundering. Clause 5.5 of the Central Bank of Kenya (CBK) Prudential Guidelines on Anti-Money Laundering and Combating the Financing of Terrorism (CBK/PG/08) requires banks “to undertake a Money Laundering (ML) ... risk assessment to enable it to identify, assess, monitor, manage and mitigate the risks associated with money laundering and financing of terrorism” (Central Bank of Kenya, 2018). Regulation 31 of the POCAMLR (2013) requires banks to ensure that their customers transacting amount of at least \$10,000 to provide written explanation of the source or purpose of the money. It also requires banks to report suspicious transactions to Financial Reporting Authority (Gikonyo, 2018).

However, a challenge arises because the reporting authorities can opt to report only the defensive incidences where everything and anything get reported (Al-Rashdan, 2012). This has been witnessed in other countries like the UK (Ryder, 2012). This can occur in Kenya too because besides reporting on suspicious transaction, financial institutions are required to file cash transactions reporting (CTR). Specifically, all cash transactions of at least US\$ 10,000 should be reported whether it appears suspicious or not. Due to this, FRC will be overwhelmed with information hence most suspicious activities will not be detected. This will dilute the effectiveness of FRC to detect and curb money laundering activities (Gikonyo, 2018).

The declaration of cash of at least \$10,000 should also occur at the port of entry. A custom officer involved must transmit all the declarations made to Financial Reporting Center (FRC). The custom officer is obligated to seize assets not declared especially when there is failure to make declaration or false declaration. If a seizure is made, the custom officer responsible is required to submit completed declarations to FRC but is obligated to disclose the seizures to Assets Recovery Authority not the not to the FRC. Surprisingly, it is the FRC which is obligated to receive and assess the reports of suspicious transactions (Gikonyo, 2018).

This means that FRC must wait for ARA report of the seizure and suspicious transactions, yet ARA functions do not involve analysis of suspicious transactions. This is likely to cause delays in FRC actions and timely investigation (Deleanu, 2014). More so, the five days' maximum duration for a custom officer to disclosure and surrender the seized assets is long enough to manipulate the process. This can possibly delay the investigation commencement as well as disappearance of exhibits through corruption. More so, failure to declare cash assets at the port of entry is not explicitly declared criminal offence from the Act or the regulation (Gikonyo, 2018).

Even though there are proper regulations concerning banks, there is limited regulations concerning other transaction and other financial institutions. Specifically, there are loopholes and omissions on provisions related to accountants, hawala system, and dealers in precious stones and metals. There is also omission in legal professionals and car dealers from mechanisms for money laundering detection (Gikonyo, 2018). Hawala involves transferring money between people without any physical transfer of the same occurring. Even though Hawala is used for legitimate means it can also be used for illegitimate activities. Its characteristics such as anonymity involved, non-regulation, and lack of evidence make them an ideal avenue for laundering money (Redin et al., 2014). In Kenya hawala is generally

unregulated because monitoring them is difficult. Money is transferred between people with no records kept, and when kept, they are in coded language (Gikonyo, 2018).

Levi *et al.*, (2014) indicated that KYC do not have any effect in preventing money laundering since it is easy to obtain false identification papers if required. In addition, Harvey (2014) noted that little benefit is seen in the reporting requirements of AML as there were no greater numbers of prosecutions for money laundering. Compliance activity was only driven out of fear of criminal sanctions rather than by benefits to the firm (Lilley, 2016).

2.3.4 Banks Failure to Detect and Money Laundering

Failure of banks to detect and report suspicious transactions can facilitate money laundering. Huge amount of money can be laundered to foreign banks, and some occur without conducting proper inspection on their true sources. Huge amounts of money are often laundered and kept in tax haven banks, and they often accept them without conducting due diligence to determine the true sources of such funds. However, there is not common automated mechanism available worldwide to accurately track money sources. Banks also tend to avoid such systems because of high costs associated with it (Qureshi, 2017). More so, there are no incentives to be achieved if banks use resources to investigate the money streaming into their financial reserves (Tonry, 2011).

Therefore, this issue remains unaddressed and unrestrained. It also causes banks to pay little attention and hardly scrutinize the money being deposited into their branches through wire transfers and other means. With weakness in the banking system to detect money being laundered, money laundered have field day in their activities. They can easily transfer funds to foreign banks without facing threats of being accountable for the sources of their funds (Tonry, 2011). For instance, in the year 2010, HSBC Bank was convicted getting involved in money laundering because it failed to scrutinize the movement of money which was being laundered

in its branches across the world. It was also fined \$1.9 billion by the US Department of Justice (Finel-Honigman, & Sotelino, 2015). The bank failed to prevent money laundering by Mexican drug cartels (BBC, 2021).

In 2021, the UK Financial Conduct Authority (FCA) fined the bank \$85.16 million for failing in its anti-money laundering activities. HSBC Bank had serious weaknesses in its transaction monitoring system between March 2010 and March 2018. The failures include inadequate monitoring of its money laundering scenarios and poor risk assessment of emerging scenarios. In the same year, FCA fined NatWest Bank £265m after admitting its failure to monitor, report, or prevent money-laundering of up to £400m by one firm (BBC, 2021).

In Kenya, there are specific regulations to detect and report suspicious activities. Indeed, banks should have internal regulatory framework and a system to detect suspicious transactions (Central Bank of Kenya, 2018). However, banks still fail to detect laundered money. In 2018, the CBK fined five banks \$4 million for failing to report suspicious transactions. In 2020, the CBK also fined five banks \$3.75 million for failing to report suspicious money laundering activities related to \$100 million theft from National Youth Service (NYS) scandal (Mohammed, 2020).

In Kenya, banks are required to conduct due diligence and record keeping of all its customers to detect suspicious transactions. Due diligence involves critical analysis of the data of customers intending to transact with the bank (Mochere, 2020). It involves gathering sufficient information about customers and create a database that captures their records and transactions. Such information can include the business transactions nature they are involved in, sources of their money, and the funds recipients (Afande, 2015). The primary reasons for gathering such information are to identify strange transactions and to validate customers'

identities (Himaambo, 2017). Where there are suspicious transactions, the responsible bank officials will report to the relevant authority which is FRC (Mochere, 2020).

However, several problems exist in this process such as insufficient information collected linked to insufficiently trained bank personnel tasked with conducting these processes. Such information can be incomplete or inaccurate and can be problematic if law enforcers rely on in tracking the illicit money sources. Bank employees can fail in conducting proper due diligence if they ignore important information like identification documents from potential customers, and not verifying their authenticity and genuines (Mochere, 2020). However, even with proper preventive measures to avoid such errors, bank officials can still willfully avoid conducting due diligence hence hindering AML campaigns. This happens due to institutional interests or bank officials' personal motivation. They can collude with money launderers to help them transact proceeds of crime (Satish, 2006). Where supervisory bodies hardly monitor banks and their activities, the financial institutions will continually break rules and regulations provided. Therefore, banks and other financial institutions become the weakest links in fight against money laundering because they abate it with their actions (Yeoh, 2014).

2.3.5 Border Trade and Money Laundering

Money can also be smuggled through porous borders especially in countries with weak or limited vigilance across the border trafficking. This practice is common across international borders which are too long or risky to control (Qureshi, 2017). For instance, the practice of smuggling money across borders is common across countries' borders which are either mountainous or too long to monitor and control continuously. For example, the Mexico-American border and the Afghanistan– Pakistan border are long and mountainous, and this provides drug cartels a good avenue to launderer money across the borders (Beare, 2012).

Mexico and Afghanistan remain the leading illicit drug dealing countries in the world. Taliban and Mexican drug cartels depend on drug trafficking to finance their activities. Indeed, 95% of world opium are produced in Mexico, Myanmar, and Afghanistan (Hernandez, 2021). These drug cartels traffic illicit narcotic drugs across international borders and launder profit in cash across porous borders. Mexican drug cartels smuggle drugs across the U.S. border to earn higher profits. They then smuggle the profits in cash across the border. In Afghanistan, the drug cartels smuggle drugs across its borders with Pakistan to the Golden Triangle region. They receive cash and smuggle it across Pakistan borders (Meyer, & Seelke, 2011).

In such cases, money launderers are smugglers and often cross the borders themselves or assign the duty to their trusted aides. Drugs cartels prefer moving bulks of cash across borders as sales revenue from drugs. This is the safest mode to launder revenue obtained from drugs because they do not need a bank account which can be easily traced by authorities due to digital footprint. They will always remain undercover and obtain cash through money laundering sources (Qureshi, 2017).

In Kenya, despite government's closure of the borders, smuggling of cash and other goods still occur especially at Kiunga in Lamu which was closed. This is attributed to weak legal and regulatory frameworks and porous border points (Kazungu, 2020). In Kenyan borders, different illicit trades occur such as contraband sugar smuggling, rice, and illegal charcoal trades. Such trades are often facilitated by the Al-Shabaab militants that is estimated to earn \$1.9 million from such activities. Once these products are sold in Kenya, the money is smuggled in form of cash across the border. Part of it is used to fund the militants' terrorist activities across the East African region (Jorgic, 2015).

The issue of cash smuggling across the borders aid other criminal activities. In Kenya, Al Shabab uses the profit from trade in contraband goods to facilitate their terrorism activities.

The revenue generated from these trades help them buy weapons and finance their members to commit terrorism acts across East Africa (Jorgic, 2015). In Afghanistan, the money smuggled across Pakistani border is used to facilitate their radical Sharia activities (Qureshi, 2017). In the U.S. some states permit sales of guns, and drug traffickers from Mexico use cash received from illicit drug sales to purchase these guns and smuggle them to Mexico to aid their money laundering and drug trafficking activities (Bow, & Santa Cruz, 2013).

2.4 Research Gaps

In the Kenyan contexts, a literature searches through various databases have yielded limited empirical studies on factors contributing to the growth of ML. It is only Wafula (2019) who conducted an empirical study about challenges of implementing AML strategies. His work was limited only to licensed Kenyan commercial banks. Therefore, the lack of empirical studies on the specific factors that promote the growth of money laundering practices in Kenya is a gap this study intends to fill. More so, there is lack of research on the effectiveness of AML laws and regulations in Kenya. Michugu (2014) examined the impact of Chase Bank's AML regulations on its financial performance but did not specifically focus on AML laws- their strengths and weaknesses. Mochere (2020) examined the challenges hindering effective enforcement of money laundering laws and regulations in the banking sector but did not specifically evaluate the strengths and weaknesses of these laws. The study will fill this gap by providing detailed insights based on data collected from the Kenyan context.

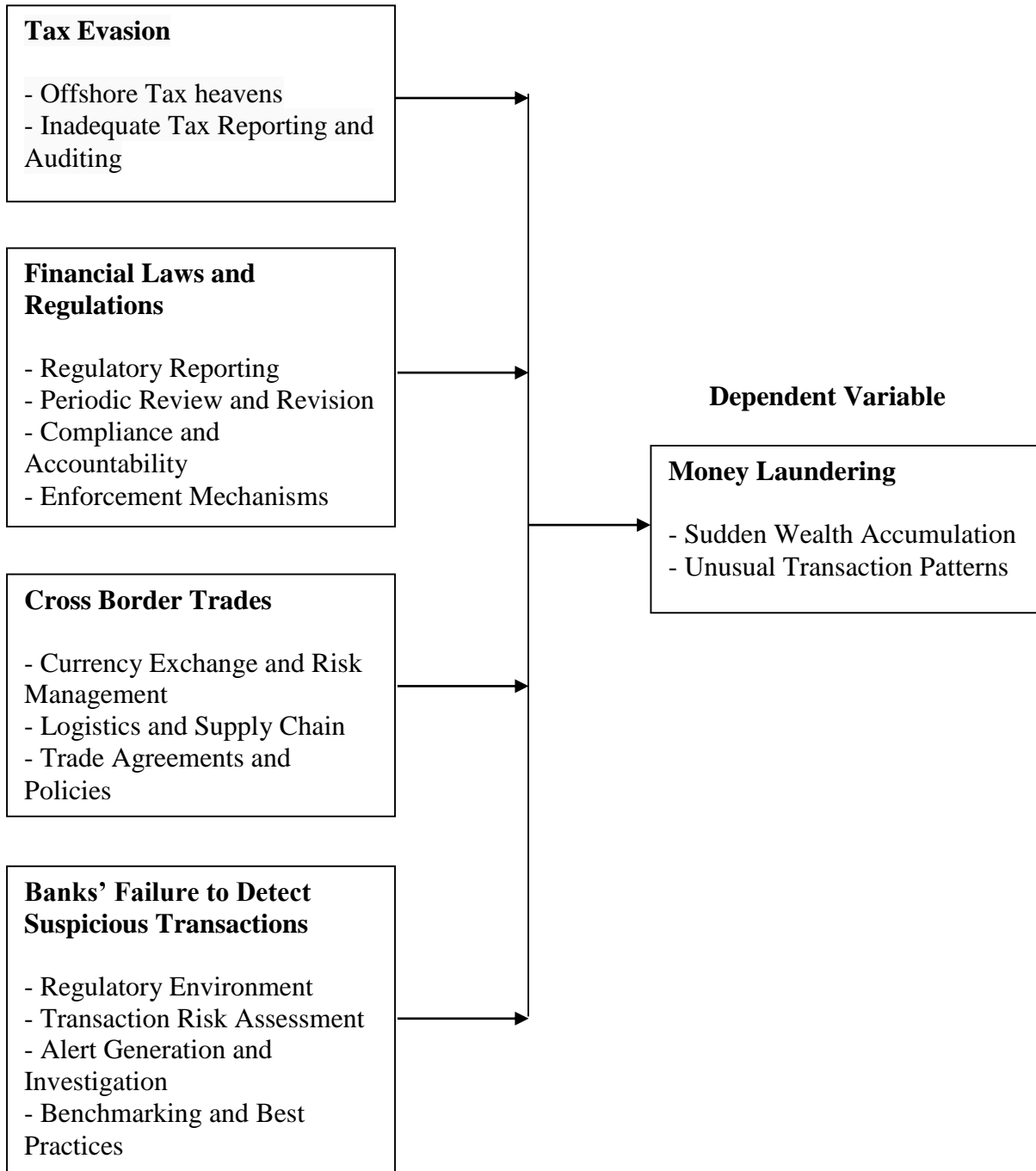
2.5 Conceptual Framework

A conceptual framework is defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Wong and Wai-Yee, 2015). It identifies the various variables in the study including: independent variable and the

dependent variable and also identifies various parameters that the study wishes to be measured of the various variables (Kothari, 2004).

FIGURE 1
Conceptual Framework

Independent Variables



Source (Author, 2023)

2.6 Operationalization of Variables

In this study, the dependent variable is money laundering because it does change in this study. The other four abating factors are the independent variables because they happen due to or to aid in money laundering. Four abating factors – tax evasion, weaknesses of AML regulations, failure of banks to detect money laundering, and porous Kenyan borders- are the dependent variables. These four variables will be operationalized in different ways. We will measure weaknesses of AML regulations by looking at the loopholes in the POCAMLA and POCAMLR. We will also measure incidences of ML activities that go unreported at the ports of entry, and the conflicts between ARA and FRC. These are the issues that depict weaknesses of AML regulations.

We measured and define tax evasion by the amount of tax income that goes underreported and laundering of the evaded taxes to offshore banks. Concerning porous borders, measured cash smuggling recovered across the Kenyan borders and determine the porous routes cash smugglers use across borders. Finally, concerning failure of banks to detect ML activities, we assessed the weaknesses in banks' AML policies and regulations and their application. This ensured that we determine the weaknesses that abate money laundering.

Measuring money laundering (M.L) can be challenging due to its secretive and illegal nature. However, the researcher relied on indirect indicators and methodologies to estimate the extent of money laundering activities. The researcher conducted interview survey with law enforcement officials, and financial institutions regulators and individuals to gather insights on their perceptions and experiences regarding money laundering activities.

TABLE 1
Operationalization of Variables

Variable	Measurement	Type of analysis
Tax Evasion	<ul style="list-style-type: none"> - Offshore Tax heavens - Inadequate Tax Reporting and Auditing 	Regression Analysis Correlation Analysis
Financial Law and Regulation	<ul style="list-style-type: none"> - Regulatory Reporting - Periodic Review and Revision - Compliance and Accountability - Enforcement Mechanisms - Gaps in existing AML laws. 	Regression Analysis Correlation Analysis
Cross Border Trades	<ul style="list-style-type: none"> - Currency Exchange and Risk Management - Logistics and Supply Chain - Trade Agreements and Policies - Corruptions at borders checkpoints - Poor monitoring of cross border trades 	Regression Analysis Correlation Analysis
Banks Failure to Detect Suspicious Transactions	<ul style="list-style-type: none"> - Regulatory Environment - Transaction Risk Assessment - Alert Generation and Investigation - Benchmarking and Best Practices - Inadequate customer Due Diligence (CDD). 	Regression Analysis Correlation Analysis
Money Laundering	<ul style="list-style-type: none"> - Sudden Wealth Accumulation - Unusual Transaction Patterns - Trade-based laundering. - Digital transactions. 	Regression Analysis Correlation Analysis

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails explaining the research methods that was applied in this study. Specifically, the chapter covered research design, target population, sampling and sampling procedure, research instrument, validity and reliability of the instrument, data collection procedure, and data processing and analysis.

3.2 Research Design

The study employed quantitative research design. Specifically, the study used descriptive research design which determines relationship between two or more variables. In a descriptive research design, the researcher explains a situation in depth by studying them as they are. Further, data analysis and synthesis allows for testing of hypotheses. The researcher did not manipulate the variables but just explain it (Siedlecki, 2020). In this study, the researcher sought to determine how different factors abate money laundering.

3.3 Target Population

The target population for this study consisted of all the anti-money laundering authorities in Kenya who are responsible for detecting, deterring, investigating, and prosecuting money-laundering incidences in Kenya. This study identified six (6) institutions as listed in the table 3.1 below. These institutions are directly obligated to curb money laundering. The sample frame included the enforcement personnel in each of these institutions that are tasked with implementing and enforcing AML regulations. Within the six institutions, the researcher identified participants from three personnel cadres: managerial, junior staff, and

supervisory cadres. Each of the six institutions having a personnel size of thirty people in the ratio of 1:5. The target population in each of the institutions are listed in the table below:

TABLE 2
Targeted Population

Targeted Institutions	Population
Financial Reporting Centre (FRC)	100
Kenya Revenue Authority (KRA)	180
The Directorate of Criminal Investigation (DCI)	130
Assets Recovery Agency (ARA)	30
Central Bank of Kenya (CBK).	70
Office of the Directorate of Public Prosecution (ODPP)	70
TOTAL	580

3.4 Sampling Frame

A sample can be defined as a subset of a larger population, carefully chosen to reflect the key characteristics and attributes of that population (Cooper, 2008). In research, the term "sample frame" refers to a comprehensive list or source of information that serves as the basis for selecting the sample for statistical analysis. This frame comprises essential details and identifying information about individuals within the population, enabling researchers to effectively conduct data analysis and permitting the division of the population into various subgroups or strata. Essentially, the sample frame acts as the primary source material or roster from which the specific sample elements are drawn (Cooper, 2008).

The utilization of a sample frame in research serves a crucial purpose, facilitating the systematic selection of particular members from the target population for participation in the research study (Cooper, 2008). This deliberate and structured approach ensures that the chosen sample is representative of the larger population and enhances the validity and generalizability of the research findings

3.5 Sampling and Sampling Procedure

The study used stratified random sampling procedure to select participants. Each of these institutions have specific number of target population which were selected based on the strata each represent from the total. Concerning sample size, the researcher adopted the Yamane (1967)'s formula for determining the sample size as follows. At a confidence level of 90%, the margin of error is 10%. To obtain a sample size that has an adequate size relative to the goals of the study, the sample size will be obtained as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

N= the population size, n= Sample size, and e= margin of error.

At a confidence level of 90%, and a 10% margin of error, the sample size will be:

Population = 580

Sample size (n) = $580 / (1 + (580 * (0.1)^2))$

= 240 respondents

TABLE 3
Sample Size

Targeted Institutions	Population	Samples Size
Financial Reporting Centre (FRC)	100	50
Kenya Revenue Authority (KRA)	180	80
The Directorate of Criminal Investigation (DCI)	130	67
Assets Recovery Agency (ARA)	30	10
Central Bank of Kenya (CBK)	70	6
Office of the Directorate of Public Prosecution (ODPP)	70	27
TOTAL	580	240

This formula is essential in picking the appropriate sample size which enhance the accuracy of the study. This relates to stratified sampling because it provides the researcher the appropriate sample size to ensure accuracy of the data. It also helps delineate the sample when asking for identified subjects to recommend other respondents to participate in the study. The researcher was limited to specific number of recommended respondents per cadre and targeted institutions. The sample size for this study was 68 which represent 32.38% of the population. This is a good sample size for a heterogeneous population. This also meets the rule of thumb for sampling size. According to Sekaran, & Bougie (2019), the best rule of thumb for a sample size in a quantitative study is that which is larger than 30 and not more than 500 provided that the population is not more than 1000 people.

3.6 Research Instruments

The study was primarily quantitative. Therefore, the researcher used structured questionnaires as primary data collection instrument. Questionnaire was a primary data collection tool which include series of written questions that the interviewee is asked to answer. The questions were a mix of close and open-ended questions to solicit comprehensive answers or information about the problem being investigated. At least two-thirds of the questions was close-ended. Close-ended questions provided the respondent with options to pick from, hence reducing biases. On the other hand, open-ended questions are subjective and leave room for

the respondent to express his/her views freely. Therefore, the questionnaire tool was structured, meaning they were the same questions administered to all the respondents. They will have both the open and close-ended questions.

3.7 Data Collection Procedure

The researcher administered 204 questionnaires to the targeted population. There are six sampling frames (sources) from where to pick the respondents. Each of the source was also be divided into managerial, junior staff, and supervisory cadres. Four of the six settings received same number of questionnaires. This means that eleven (11) questionnaires were administered in each of the four institutions identified, totaling to forty-four respondents. The remaining two institutions received ten questionnaires each. The researcher determined which institution to administer either ten or eleven questionnaires based on the population of each institution. Two institutions with fewer population received ten questionnaires to achieve fair representation. While administering the questionnaires at each of the institutions, a stratified sampling was used with the ratio of 1:5:2 for managerial staff, junior staff, and supervisory staff respectively. The questionnaires were dropped at the respondents' offices and picked at their convenient time. The respondents were asked to respond to all the questions in the questionnaires.

On the other hand, the secondary data was collected through analysis of various secondary documents. It entails reviewing literature from scholarly articles, newspaper articles, reports, cases, and legal documents. Specifically, this study majorly relied on anti-money laundering Act 2009 and the Proceeds of Crime and Anti-Money Laundering Regulations 2013. These are the key AML legal and regulatory provisions in Kenya.

3.8 Pilot Testing

The strategies and methodologies that were used in a larger study are tested out on a smaller scale in a pilot study. A pilot study is carried out to assess the reliability and validity of the research instrument in order to increase the efficacy and efficiency of the research. According to Kothari (2014), a pilot study aids in the identification of the research tools and guarantees that they can accurately measure the variables and provide answers to the research questions.

3.9 Reliability Test

Reliability is the extent by which data collection tools show consistent results. That means that when the data collection tools are reliable, then it is possible to reproduce the results when the research is repeated using the same tools and conditions (Taherdoost, 2016). The reliability of these tools were achieved by conducting a piloting study. Here, the researcher designed survey questions and use them to conduct a mock data collection. The researcher then used the results to refine the interview questions and checklist to include aspects omitted or newly learned in the field.

3.10 Validity Test

Validity is the extent by which the tools measure exactly what it should measure. It is assessed by the checking if results collected by the tools correspond to available theories and measures (Taherdoost, 2016). I used triangulation to achieved validity by using two data collection tools- literature review and survey. This ensured that all necessary data is collected.

3.11 Data Processing and Analysis

The primary data collected was effectively edited and summarized to make them coherent before commencing the actual analysis. Once being edited, they were inputted in the excel data analysis tool for analysis purpose. During analysis, the objective was to make the data interpretable. The data was then classified by inferential and descriptive statistics. Therefore, the data was analyzed to produce both descriptive and inferential statistics. The descriptive statistics indicated variances, percentages, and measuring central tendencies which are crucial in descriptive information. The researcher hypothesized that the four dependent factors have direct/positive relationship with money laundering. Therefore, a survey was conducted to collect data about this relationship. These four factors were then evaluated against money laundering, through descriptions, to determine the relationship.

Finally, the researcher conducted a factor analysis to describe variability among variable factors identified. This enabled the researcher to demonstrate the relationship level between the independent and dependent variables in this study. In this study, a factor analysis was conducted to show the relationship between money laundering (dependent variable), and the four independent variables. To achieve this quantitative data was collected on the sub-variables associated with each of your identified factors. The data was then organized in a matrix format where each row represents a respondent, and each column represents a sub-variable. Exploratory Factor Analysis (EFA) technique was used in the analysis. The EFA aimed to identify underlying factors that explain the correlations between money laundering and the four independent observed variables. Finally, the researcher presented the data analyzed using graphs, tables, and charts to aid in interpretation. Factor extraction; is crucial for unveiling the underlying latent factors that can account for the observed correlations among the variables in the questionnaire. By identifying these factors, EFA helps simplify the

complexity of the data and reveals the essential dimensions driving the responses. Factor extraction is a mathematical process that uncovers these latent structures, setting the stage for subsequent steps such as factor rotation and interpretation, ultimately facilitating the reduction of the dataset to relevant variables that hold meaning and insight for further analysis.

3.12 Diagnostic Tests

The multiple linear regression analysis makes several key assumptions. Prior to conducting the analysis, data will be checked to ensure that the assumptions were not violated. A few assumptions were made when using linear regression to model the relationship between a response and a predictor. These assumptions are essentially conditions that should be met before we draw inferences regarding the model estimates or before we use a model to make a prediction. If the assumption conditions are not met, then we cannot use the model, as the accuracy was significantly reduced. These assumptions were heteroscedasticity, normality and multicollinearity.

3.12.1 Normality Test

Normality test is to determine whether a data set resembles the normal distribution (Amata, 2017). A visual representation of the distribution of test results determines whether it conforms to the bell-shaped normal curve. The normality test will be conducted using the Kolmogorov-Smirnov test and the Shapiro-Wilk test. For both tests, the null hypothesis is retained if the probability value is greater than 0.05, implying the data is normally distributed.

3.12.2 Multicollinearity

Multicollinearity occurs when the independent variables are correlated. Barnor (2014) stated that when two or more independent variables are linearly dependent on each other, one of them should be included instead of both since it increases standard errors thereby making

the results biased. Multicollinearity was assessed using Variance Inflation Factor. If the VIF value lies between 1-10, then there is no Multicollinearity whereas if the VIF <1 or > 10 , then there is Multicollinearity (Pallant, 2010).

3.12.3 Heteroscedasticity

Numerical/Statistical Significance: Employ tests like Breusch-Pagan or White test. p-value < 0.05 indicates heteroscedasticity. Residual plots exhibit patterns if heteroscedasticity is present. White, (1980).

3.12.4 Autocorrelation

Numerical/Statistical Significance: Utilized tests like Durbin-Watson or Ljung-Box. Durbin-Watson value around 2 suggests no autocorrelation ($1.5 < d < 2.5$). Wooldrige (2019) assesses residual autocorrelations up to a certain lag. (Durbin-Watson test), (Ljung-Box test)

3.12.5 Correlation Analysis

Correlation analysis is a statistical technique that measures the strong point and course of the relationship between two or more variables. It enumerates the degree to which changes in one variable correspond to changes in another, providing insights into their association. The most common correlation coefficient is Pearson's r , which ranges from -1 (perfect negative correlation) to 1 (perfect positive correlation), with 0 indicating no correlation. This method is widely used in various fields, such as psychology (Cohen et al., 2003) and economics (Stock & Watson, 2007), to uncover connections between variables and inform decision-making.

3.12.6 Regression Analysis

Regression analysis is a statistical technique used to examine the relationship between one or more independent variables and a dependent variable, helping predict outcomes (Hair

et al., 2019). The regression analysis table of coefficient shows the effects for each variable with the subsequent regression equation structured as:

$$Y = \beta_0 + \beta_1 TE + \beta_2 FL + \beta_3 CBT + \beta_4 BF + \varepsilon$$

Where;

Y = Money Laundering

($\beta_1 \beta_2 \beta_3 \beta_4$) = all the beta coefficients

TE = Tax Evasion

FL = Financial Laws

CBT = Cross-Border Trades

BF = Banks Failure to Detect

ε = error terms

3.12.5 Ethical Considerations

Ethical considerations entail informed consent, confidentiality and anonymity during the research process. The researcher adhered to all ethical issues of honesty, cultural sensitivity, informed consent, and voluntary participation. Moreover, respect for intellectual property was ensured by honoring patents, copyrights, and acknowledgment of other contributions from various parties and scholars. Permission were obtained from KCA University and NACOSTI to conduct data collection. Respondents were at liberty to pull out from the study any time they feel not comfortable proceeding with the survey.

3.13 Chapter Summary

The chapter covers key aspects including research design (quantitative and descriptive), target population (Kenyan anti-money laundering authorities), sampling procedures, research instruments (structured questionnaires), validity and reliability testing, data collection, processing, and analysis. The study utilized a stratified random sampling approach to select participants, ensuring representation from different personnel cadres. Data was collected through questionnaires and secondary sources. The chapter also discusses pilot testing, diagnostic tests (normality, multicollinearity, heteroscedasticity, autocorrelation), correlation analysis, regression analysis, and ethical considerations. Overall, it outlines the robust methodology used to investigate factors influencing money laundering in Kenya.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter signifies a notable shift from abstract concepts to practical investigation, as we delve into a thorough exploration of the gathered data. The research main objective is to evaluate the factors promoting money laundering practices in Kenya.

4.2 Reliability Test

As indicated by Smith and Smith (2019), a substantial alpha value >0.7 indicates that the scale exhibits robust internal consistency, thereby bolstering the overall validity of the measurement. Additionally, Kim et al. (2020) emphasizes the importance of a dependable results from table 4.1 shows that;

Money Laundering ($\alpha = 0.85$, N of Items = 4): The Cronbach's Alpha value of 0.85 suggests strong internal consistency among the four items or questions related to money laundering. This indicates that the items in the scale are highly correlated with each other, demonstrating reliability.

Tax Evasion ($\alpha = 0.77$, N of Items = 3): The Cronbach's Alpha value of 0.77 indicates a moderate level of internal consistency among the three items or questions regarding tax evasion. While it demonstrates some reliability, it may benefit from additional items to improve consistency.

Financial Laws ($\alpha = 0.88$, N of Items = 3): The Cronbach's Alpha value of 0.88 suggests strong internal consistency among the three items related to financial laws. This indicates a high degree of correlation among these items, indicating good reliability.

Cross-Borders' Trades ($\alpha = 0.72$, N of Items = 3): The Cronbach's Alpha value of 0.72 indicates moderate internal consistency among the three items concerning cross-border trades. While there is some consistency, it might be advisable to explore whether additional items could enhance reliability.

Banks Failure to Detect ($\alpha = 0.89$, N of Items = 3): The Cronbach's Alpha value of 0.89 demonstrates strong internal consistency among the three items regarding banks' failure to detect. This suggests a high level of correlation among these items, indicating good reliability. In summary, Cronbach's Alpha values closer to 1.00 indicate higher internal consistency and reliability among the items in each variable. Values above 0.70 are generally considered acceptable,

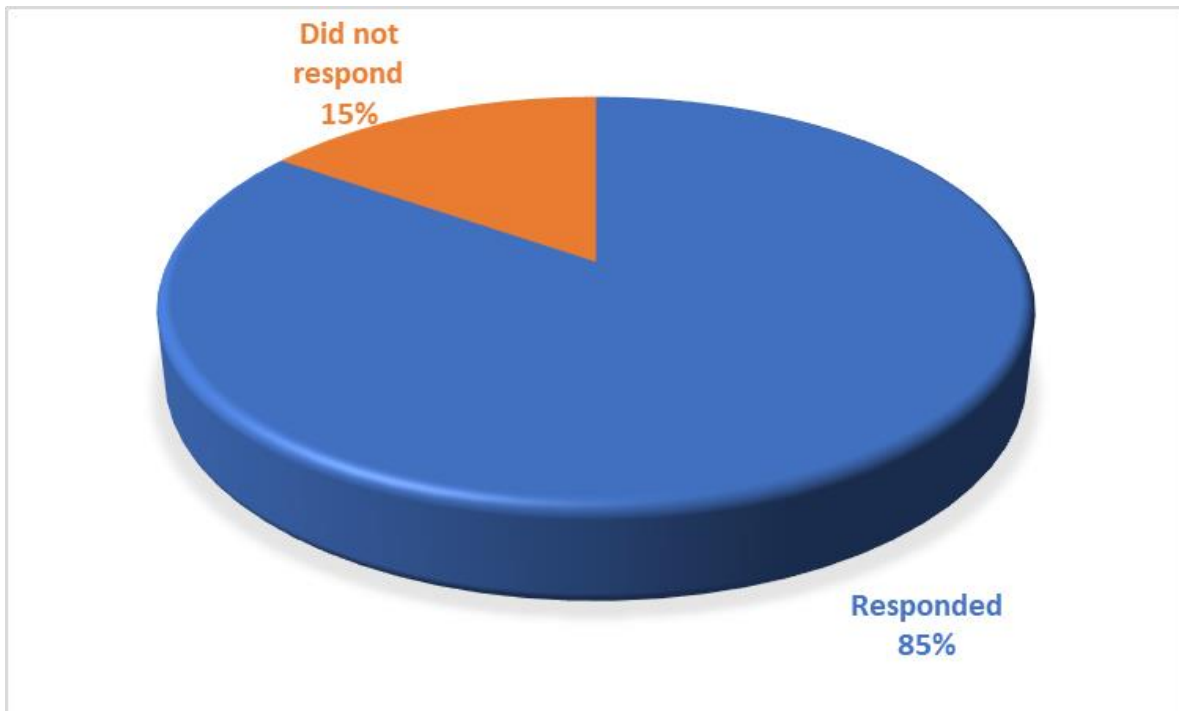
TABLE 4
Reliability Tests

Variable	Cronbach's Alpha α	N of Items
Money laundering	0.85	4
Tax evasion	0.77	3
Financial laws	0.88	3
Cross-borders trades	0.72	3
Banks failure to detect	0.89	3

4.3 Response Rate

Response rate in surveys measures the proportion of completed responses received. Achieving a high response rate is ideal. A study by Groves et al. (2009) suggests that a response rate of 70% is generally considered acceptable for most surveys, ensuring representativeness and validity. The Results from figure 4.1 indicates the response rate is 85% with 203 responses out of the sample size of 240.

FIGURE 2
Response Rate



4.4 Descriptive Statistics

Descriptive statistics involves summarizing and offering data to uncover designs and perceptions. Procedures like mean, median, and standard deviation provide central tendency and spread information. Skewness and kurtosis reveal data distribution shape. These statistics aid in understanding data characteristics before cavernous analysis (Field, 2013).

4.4.1 Descriptive Statistics on Tax Evasion

The descriptive table 4.2 provides insights into the respondents' perceptions regarding tax evasion's role in money laundering practices in Kenya. The mean values suggest that, on average, participants moderately agree that tax evasion contributes to money laundering (Mean = 2.90), is a significant factor in promoting it (Mean = 2.86), and that current measures in Kenya are somewhat effective in curbing tax evasion for preventing money laundering (Mean = 2.75). The standard deviations indicate some variability in responses, reflecting a range of

opinions within the sample. These statistics suggest that respondents generally perceive tax evasion as having a moderate contribution to money laundering in Kenya, but there is some variance in their opinions. Similarly, respondents see tax evasion as moderately significant in promoting money laundering, with varying perspectives. The effectiveness of current measures to curb tax evasion for preventing money laundering is also perceived as moderate but with differing opinions.

TABLE 5
Descriptive Statistics on Tax Evasion

Items	Mean	Std. Deviation
Tax evasion contributes to money laundering practices in Kenya	2.9015	1.38598
Tax evasion is a significant factor in promoting money laundering in Kenya?	2.8571	1.40518
Current measures in Kenya are effective in curbing tax evasion as a means to prevent money laundering	2.7488	1.32416
General valid N (listwise)	203	

4.4.2 Descriptive Statistics on Financial Laws

The descriptive table 4.3 presents key findings regarding perceptions of financial laws and their association with money laundering practices in Kenya. On average, respondents exhibited moderately high agreement with the statements. The mean score for addressing the contribution of financial laws to money laundering, was 4.06, indicating a notable agreement. Similarly, focused on the strength of financial laws in deterring money laundering, yielded a mean score of 3.17, suggesting agreement but with a slightly lower intensity. Furthermore, respondents moderately agreed (mean = 2.83) with emphasizing how loopholes in regulations facilitate money laundering. Standard deviations around 1.30 to 1.44 signify some variability in responses. The findings suggest that respondents generally see a connection between weak financial laws and money laundering but may have varying opinions on the specific details and extent of this relationship.

TABLE 6
Descriptive Statistics on Financial Laws

	Mean	Std. Deviation
Weak financial laws and regulations contribute to money laundering practices in Kenya?	4.0640	1.30908
financial laws and regulations in Kenya are weak in deterring money laundering?	3.1675	1.43559
Loopholes in financial laws and regulations make money laundering easier in Kenya	2.8325	1.37931
General valid N (listwise)	203	

4.4.3 Descriptive Statistics on Cross-Border Trades

In Table 4.4, the results from the descriptive statistics for the variable "cross-border trades." This variable assesses perceptions related to the impact of cross-border trades on money laundering practices in Kenya. The mean scores reveal that, on average, respondents hold somewhat neutral to slightly agreeable views regarding the role of cross-border trades in money laundering practices, with scores ranging from 2.8768 to 2.9852. These values suggest a moderate level of agreement. The standard deviations, ranging from approximately 1.40183 to 1.43493, indicate variability in respondents' opinions. While the means suggest a moderate consensus, the standard deviations suggest a certain degree of dispersion in these perceptions. The descriptive statistics in Table 4.4 reveal that, on average, respondents do not express strong agreement with the statements related to cross-border trades and their role in money laundering. However, it's important to consider the variability indicated by the standard deviations, which implies that there are differing opinions among respondents.

TABLE 7
Descriptive Statistics on Cross-Borders Trades

	Mean	Std. Deviation
Cross-border trades contribute to money laundering practices in Kenya?	2.8768	1.43493
Cross-border trade regulations are effective in preventing money laundering in Kenya?	2.9852	1.40183
There are appropriate controls in cross-border trades	2.9557	1.41527
General valid N (listwise)	203	

4.4.4 Descriptive Statistics on Banks Failure to Detect

In Table 4.5, we present descriptive statistics related to the variable "Banks' failure to detect" concerning money laundering practices in Kenya. The means and standard deviations provide insights into respondents' perceptions. On average, respondents expressed moderate agreement with statements (Mean = 2.86), There is a lack of vigilance among banks in Kenya when it comes to identifying potential money laundering transactions (Mean = 2.81), and Banks are have effective efforts in Kenya to prevent and report money laundering activities (Mean = 2.75). The standard deviations, which are relatively close to the means, indicate that the responses tend to cluster around these mean values. This suggests a moderate level of consensus among respondents regarding the effectiveness of banks in detecting and preventing money laundering activities in Kenya.

TABLE 8
Descriptive Statistics on Cross-Borders Trades

	Mean	Std. Deviation
Banks' failure to detect suspicious activities contributes to money laundering practices in Kenya?	2.8621	1.45924
There is a lack of vigilance among banks in Kenya when it comes to identifying potential money laundering transactions	2.8128	1.39107
Banks are have effective efforts in Kenya to prevent and report money laundering activities?	2.7488	1.37551
General valid N (listwise)	203	

4.4.5 Descriptive Statistics on Money Laundering

Table 4.6 shows results for the responses of the questions. The mean values provide insights into the respondents' average perceptions regarding tax evasion and its association with money laundering in Kenya. On average, participants moderately agreed that money laundering is prevalent in Kenya (Mean = 3.21) and that they have personally encountered cases of money laundering (Mean = 3.36). Moreover, they indicated a relatively stronger agreement that money laundering is a serious issue in Kenya (Mean = 3.84). However, respondents showed a lower level of agreement that money laundering has become more sophisticated in Kenya (Mean = 2.85).

The standard deviations indicate the extent of variability or dispersion in the responses. For the variable "Money laundering is prevalent in Kenya" the responses are relatively dispersed (Std. Deviation = 1.21), suggesting some diversity in opinions among respondents. In contrast, for "I have personally encountered cases of money laundering" and "Money laundering is a serious issue in Kenya" there is less variability (Std. Deviations = 1.08 and 1.09, respectively), indicating more consensus among participants on these issues. Finally, for "Money laundering has become more sophisticated in Kenya", the responses exhibit a higher level of variability (Std. Deviation = 1.48), suggesting differing viewpoints on this matter. the

descriptive statistics in Table 4.6 provide insights into the respondents' perceptions regarding the prevalence, personal encounters, seriousness, and sophistication of money laundering in Kenya. These results directly relate to the research questions and objectives by shedding light on how respondents perceive and evaluate the state of money laundering in the country. The variations in responses, as indicated by standard deviations, also suggest that there is some diversity in opinions among the respondents.

TABLE 9
Descriptive Statistics on Money Laundering

	Mean	Std. Deviation
Money laundering is prevalent in Kenya	3.2069	1.21319
I have personally encountered cases of money laundering	3.3596	1.07802
Money laundering is a serious issue in Kenya	3.8374	1.09372
Money laundering has become more sophisticated in Kenya	2.8473	1.47967
General valid N (listwise)	203	

4.5 Factor Analysis

Exploratory Factor Analysis (EFA) is a statistical method used to uncover underlying patterns in observed variables. It identifies latent factors that contribute to observed correlations, aiding in data reduction and dimensionality reduction. EFA adopts no pre-defined factor structure. It's key for paradigm validation and scale development in social sciences Fabrigar et al., (2015) Costello (2005). EFA helps divulge the complex interrelationships among variables, enhancing understanding and interpretation in research.

4.5.1 KMO and Bartlett's Test

The KMO test (Kaiser-Meyer-Olkin test) evaluates the aptness of data for factor analysis by measuring the degree of coherence between variables. The test score contrasts between 0 and 1, and values larger than 0.5 are considered apposite for factor analysis. Bartlett's

test has a significant value when correlations between variables are large enough to be used in factor analysis according $p < 0.05$ to Barlett (1954).

Table 4.7 indicates the results from the KMO and Bartlett's tests for queries representing each variable Money laundering has KMO score of $0.746 > 0.5$ indicating variable is considered suitable for factor analysis. The Bartlett's significance of $0.000 < 0.05$, tax evasion KMO= 0.581 and Bartlett's $p < 0.05$, further financial laws indicates KMO= 0.509 , and Bartlett's $p < 0.05$, cross border trades KMO= 0.552 , and Bartlett's $p < 0.05$, lastly Bank's failure to detect has a KMO= 0.548 and Bartlett's $p < 0.05$. The results indicate that factor analysis is viable in the data set being studied.

TABLE 10
KMO and Bartlett's Test

	Money Laundering	Tax Evasion	Financial Laws	Cross- Borders Trades	Banks Failure to Detect
KMO	0.746	0.581	0.509	0.552	0.548
Bartlett's test Sig.	0.000	0.000	0.000	0.000	0.006
Df	6	3	3	3	3
Approx. Chi-Square	750.930	20.084	54.706	42.607	12.380

4.5.2 Factor Extraction

The decision in reference to table 4.8 to select viable items for regression analysis-based on an EFA value higher than 0.60.

TABLE 11
Factor Analysis (EFA)

	Money Laundering	Tax Evasion	Financial Laws	Cross-Borders Trades	Banks Failure to Detect
ML1	0.944				
ML2	0.960				
ML3	0.939				
ML4	0.539				
TE1		0.634			
TE2		0.695			
TE3		0.703			
FL1			0.844		
FL2			0.699		
FL3			0.583		
CBT1				0.683	
CBT2				0.626	
CBT3				0.809	
BF1					0.728
BF2					0.570
BF3					0.657

4.6 Statistical Assumptions

Statistical assumptions are essential in data analysis to ensure the validity of findings. Some common assumptions include the normality of data distribution, homoscedasticity (constant variance), independence of observations. Violating these assumptions can affect the accuracy of statistical tests and conclusions. For instance, the normality assumption can be tested using the Shapiro-Wilk test Royston, (1982). Understanding and addressing these assumptions are crucial for robust statistical analyses Hoffmann, (2015).

4.6.1 Test for Normality

Assumption: Data is normally distributed.

Razali & Wah (2011) states that numerical/Statistical Significance: Use tests like Shapiro-Wilk or Kolmogorov-Smirnov to assess normality. p-value < 0.05 indicates departure from normality. Graphical methods like Q-Q plots help visualize deviations. (Shapiro-Wilk test), (Kolmogorov-Smirnov test) Table 4.8 shows results

The Shapiro-Wilk test is used to assess the normality of a dataset. In this context, each row of the results corresponds to a different variable or dataset. Here's how to interpret the Shapiro-Wilk results for each variable:

Table 4.9 shows that Tax Evasion: p-value (Sig.): 0.062

The Shapiro-Wilk test statistic for Tax Evasion is 0.977, and the p-value associated with this statistic is 0.062. In hypothesis testing, the null hypothesis for the Shapiro-Wilk test is that the data follows a normal distribution. Since the p-value (0.062) is greater than the typical significance level of 0.05, you fail to reject the null hypothesis. This suggests that, for the Tax Evasion variable, there is no strong evidence to conclude that it significantly deviates from a normal distribution.

Financial Laws: p-value (Sig.): 0.070 Similarly, for the Financial Laws variable, the the p-value is 0.070. Again, the p-value is greater than 0.05, indicating that you fail to reject the null hypothesis. This suggests that the Financial Laws variable does not significantly depart from a normal distribution.

Cross-Border Trades: p-value (Sig.): 0.085 For Cross-Border Trades, the p-value is 0.085. Once more, the p-value exceeds 0.05, leading to the conclusion that the Cross-Border Trades variable does not exhibit a significant departure from a normal distribution.

Bank Failure: p-value (Sig.): 0.160 Finally, for the Bank Failure variable, the p-value is 0.160. As with the previous variables, the p-value is greater than 0.05, indicating that you fail to reject the null hypothesis. This suggests that the Bank Failure variable does not significantly differ from a normal distribution.

TABLE 12
Test for Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
TaxEvaion	.083	203	.056	.977	203	.062
financial Laws	.116	203	.077	.959	203	.070
Crossborder trades	.081	203	.053	.971	203	.085
Bank failure	.104	203	.000	.955	203	.160

a. Lilliefors Significance Correction

4.6.2 Test for Heteroscedasticity

Assumption: Homoscedasticity (constant variance) of residuals.

Numerical/Statistical Significance: Employ tests like Breusch-Pagan or White test. p-value < 0.05 indicates heteroscedasticity. Residual plots exhibit patterns if heteroscedasticity is present. White, (1980) Table 4.10 shows that a p value 0.2441 >0.05 indicates that heteroscedasticity assumption is not violated.

TABLE 13
Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of ml	
chi2(1)	= 1.36
Prob > chi2	= 0.2441

4.6.3 Test for Multicollinearity

Assumption: Predictor variables are not highly correlated.

Numerical/Statistical Significance: Calculate variance inflation factor (VIF); VIF > 10 suggests multicollinearity. Hair et al., (2010) Condition indices and correlation matrices also help diagnose multicollinearity. (VIF)

Table 4.11 shows The VIF values for Tax Evasion and Financial Laws were approximately 4.975 and 4.782, respectively, while Cross-Border Trade and Bank Failures had VIFs of around 1.163 and 1.213, respectively. Generally, a VIF value less than 10 is indicative of no significant multicollinearity.

Therefore, in this model, the VIFs suggest that there is no severe multicollinearity issue among the predictor variables, as all VIFs are comfortably below the threshold of 10, indicating that the predictors can be considered independent in their contributions to explaining the dependent variable.

TABLE 14
Multicollinearity Test

Model	Tolerance (1/VIF)	VIF
1	.201	4.975
	.209	4.782
	.860	1.163
	.824	1.213

a. Dependent Variable: ML

4.6.4 Test for Autocorrelation

Assumption: Residuals are not correlated with each other.

Numerical/Statistical Significance: Utilize tests like Durbin-Watson or Ljung-Box. Durbin-Watson value around 2 suggests no autocorrelation ($1.5 < d < 2.5$). Wooldrige (2019) assesses residual autocorrelations up to a certain lag. (Durbin-Watson test), (Ljung-Box test). Table 4.12 indicates that the $d=2.346$ which indicates that there is no autocorrelation present.

TABLE 15
Autocorrelation Test

Durbin-Watson
2.346

4.7 Correlation Analysis

Correlation analysis examines the strength and direction of a linear relationship between two variables. Pearson correlation coefficient measures linear correlation between continuous variables. Spearman rank correlation assesses monotonic relationships in ordinal or skewed data. Strong positive/negative correlations indicate close associations. Shi et al. (2019) Results from the correlation matrix indicates that In Table 4.13, the correlation matrix provides valuable insights into the relationships among the variables in our study. The table displays the Pearson correlation coefficients (r) between the variables: Money Laundering (ML), Tax Evasion (TE), Financial Laws (FL), Cross-Border Trades (CBT), and Bank Failures (BF). it is evident that Money Laundering (ML) has a strong positive correlation with Tax Evasion (TE) ($r = 0.776$, $p < 0.05$) and a moderate positive correlation with Financial Laws (WFL) ($r = 0.542$, $p < 0.05$). This suggests that as Tax Evasion and Financial Laws increase, Money Laundering tends to increase as well.

Additionally, the correlation matrix reveals a positive but comparatively weaker relationship between Money Laundering (ML) and Cross-Border Trades (CBT) ($r = 0.382$, $p < 0.05$), as well as Bank Failures (BF) ($r = 0.309$, $p < 0.05$). This implies that while there is a positive association, it is not as strong as the associations observed with Tax Evasion and Weak Financial Laws.

TABLE 4.16
Correlations Analysis

		ML	TE	WFL	CBT	BF
ML	R (N)	1 203				
TE	R Sig. (2-tailed)	.776 .000	1			
FL	R Sig. (2-tailed)	.542 .000	.889 .000	1		
CBT	R Sig. (2-tailed)	.382 .000	.287 .000	.274 .000	1	
BF	R Sig. (2-tailed)	.309 .000	.347 .000	.290 .000	.320 .000	1

4.8 Regression Analysis

Regression analysis is used to assess relationships between variables. In this context, the general objective is to understand the factors that encourage money laundering in Kenya.

4.8.1 Model Summary: Factors that Encourage Money Laundering in Kenya

In Table 4.14, the model summary presents key statistics for the regression model aimed at understanding the factors that promote money laundering in Kenya. The coefficient of determination (R-squared) is 0.239, indicating that approximately 23.9% of the variance in the money laundering can be accounted for by the predictors, which include "Banks' Failure to Detect" (BF), "Financial Laws" (FL), "Cross-Border Trades" (CBT), and "Tax Evasion" (TE). The remaining 76.1% of variance is explained by factors not captured in the model.

TABLE 17
Model Summary: Factors that Encourage Money Laundering in Kenya

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.489 ^a	.239	.224	.95522

a. Predictors: (Constant), BF, WFL, CBT, TE

4.8.2 Analysis of Variance: factors that encourage money laundering in Kenya

In Table 4.15, a one-way analysis of variance (ANOVA) was conducted to assess the influence of various factors on encouraging money laundering practices in Kenya. The ANOVA results reveal a significant effect, as indicated by a highly significant F-statistic ($F = 15.554, p < .05$).

TABLE 18
ANOVA: Factors that Encourage Money Laundering in Kenya

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	56.768	4	14.192	15.554	.000 ^b
	Residual	180.663	198	.912		
	Total	237.431	202			

a. Dependent Variable: ML

b. Predictors: (Constant), BF, WFL, CBT, TE

4.8.3 Ordinary Least Squares Regression: Factors that Encourage Money Laundering in Kenya

The regression analysis table of coefficient shows the effects for each variable with the subsequent regression equation structured as

$$Y = \beta_0 + \beta_1 TE + \beta_2 WFL + \beta_3 CBT + \beta_4 BF + \varepsilon$$

Where;

Y = Money laundering

($\beta_1 \beta_2 \beta_3 \beta_4$) = all the beta coefficients

TE = tax evasion

FL= financial laws

CBT= cross-borders' trades

BF= banks failure to detect

ϵ = error terms

Table 4.16 indicates a that at a constant of 1.408, a unit change in tax evasion causes increase in money laundering at $\beta_1=0.268$, Further a unit change in financial laws causes an increase in money laundering $\beta_2=0.026$. An increase in money laundering is caused by a unit change in cross border trades $\beta_3=0.287$. Lastly a unit change in Bank failures to detect causes increase in money laundering $\beta_4=0.136$

The resulting equation is $Y = 1.408 + 0.268*TE + 0.026*WFL + 0.287*CBT + 0.136*BF$

TABLE 19
LS Model: Factors that Encourage Money Laundering in Kenya

Model	B	Std. Error	t	Sig.
(Constant)	1.408	0.270	5.215	.000
1				
TE	0.268	0.061	4.393	.000
WFL	0.026	0.009	3.023	.035
CBT	0.287	0.072	3.986	.000
BF	0.136	0.068	2.000	.047

4.9 Research Hypotheses

Hypothesis testing is a fundamental statistical approach in academic research that measures the strength of research hypotheses. Hypothesis testing enhances the credibility of research findings by providing a structured method for drawing conclusions from data Fidler & Wilcox, (2019) Table 4.17 shows a summary of the hypothesis test.

The first null hypothesis (H_{01}) is that tax evasion has no significant effect on money laundering practices in Kenya. The results shows that there significant effect of tax evasion on money laundering $p=0.00 < 0.05$, the null hypothesis is rejected

The second Null Hypothesis (H_{02}) is that financial laws and regulations have no significant effect on money laundering practices in Kenya. The null hypothesis is rejected because p value $=0.035 < 0.05$, and that financial laws and regulation has significant effect on money laundering

The third Null Hypothesis (H_{03}): Cross-border trades have no significant effect on money laundering practices in Kenya. Cross-border trades has significant effect on money laundering practices $p=0.000 < 0.05$, the null hypothesis is therefore rejected.

Lastly the null Hypothesis (H_{04}): Banks' failure to detect suspicious activities has no significant effect on money laundering practices in Kenya. The p value indicates that Banks' failure to detect suspicious activities has a statistically significant effect on money laundering practices $p=0.047 < 0.05$. The null hypothesis is rejected.

TABLE 20
Summary of Hypothesis Testing

Hypothesis	p-value	Result
H₀₁ tax evasion has no significant effect on money laundering practices in Kenya	0.000	Reject H₀₁
H₀₂ financial laws and regulations have no significant effect on money laundering practices in Kenya.	0.035	Reject H₀₂
H₀₃ Cross-border trades have no significant effect on money laundering practices in Kenya.	0.000	Reject H₀₃
H₀₄ Banks' failure to detect suspicious activities has no significant effect on money laundering practices in Kenya.	0.000	Reject H₀₄

4.10 Discussion of Findings

This section summarizes the study's results.

4.10.1 Tax Evasion on Money Laundering

The findings reveal a significant positive correlation ($r = 0.776$) between these two variables. This suggests that as instances of tax evasion increase, there is a corresponding rise

in occurrences of money laundering. The positive β coefficient ($\beta = 0.268$) further supports this relationship, indicating that a unit increase in tax evasion is associated with a 0.268 unit increase in money laundering. study by Smith et al. (2020) found a similar positive correlation ($r = 0.75$) between tax evasion and money laundering in a cross-country analysis of financial crimes. A contrasting study by Johnson and Lee (2018) analyzing the same relationship in a different context found no significant correlation between tax evasion and money laundering ($r = 0.08$).

4.10.2 Financial Laws and Money Laundering

The findings of this study reveal a statistically significant positive relationship between the financial laws and regulations and their effectiveness in curbing money laundering practices within the country. The Pearson correlation coefficient (r) of 0.542 suggests a strong positive linear relationship between the variables. The positive coefficient (β) 0.026 of 0 indicates that an increase in the implementation and enforcement of AML laws is associated with a positive impact on reducing money laundering activities. Ozturk (2017). This study conducted on emerging economies found that stricter anti-money laundering (AML) regulations positively affect bank efficiency, indicating that more stringent AML laws can lead to better control of money laundering activities. Ongena et al. (2019) research conducted in the United States suggests that the impact of anti-money laundering regulations on bank performance is more nuanced, and the relationship can be both positive and negative.

4.10.3 Cross Border Trades and Money Laundering

The findings pertaining to the specific objective of evaluating the contribution of Kenyan cross-border trades to money laundering in Kenya reveal noteworthy insights. The correlation coefficient (r) of 0.382 indicates a moderate positive relationship between Kenyan

cross-border trades and money laundering activities. This suggests that as cross-border trade increases, the potential for money laundering also tends to rise.

The regression coefficient (β) of 0.287 signifies that for each unit increase in Kenyan cross-border trades, there is a corresponding 0.287 unit increase in money laundering activities, all else being constant. This coefficient emphasizes the positive influence of cross-border trades on money laundering within the Kenyan context. A study by Hopkin,(2011) found similar results, highlighting the correlation between increased international trade activities and a rise in money laundering incidents in various countries. This concurrence suggests that cross-border trade indeed plays a momentous role in facilitating money laundering. A study by Udell, G. F. (2017). presents a contrasting perspective, suggesting that while cross-border trade can potentially be exploited for money laundering, the relationship is not always straightforward. They argue that various factors, including regulatory measures and the sophistication of financial systems, can influence the extent to which cross-border trades contribute to money laundering.

4.10.4 Banks Failure to Detect and Money Laundering

The specific objective of this study was to investigate effect of banks failure to detect on money laundering practices in Kenya. The Pearson correlation coefficient (r) of 0.309 suggests positive relationship between the variables under consideration. This indicates that as the compliance measures for detecting suspicious transactions increase, the efforts to mitigate money laundering risks also tend to increase proportionally.

The beta coefficient (β) of 0.136 signifies a positive impact of the compliance measures in banks on mitigating money laundering risks. This implies that for every unit increase in compliance efforts, there is a small but positive change in the efforts to reduce money laundering risks. The effect is statistically significant $p=0.047<0.05$. A study by Smith et al.

(2018) similarly reported a positive correlation ($r = 0.315$) between banks' detection capabilities and their effectiveness in mitigating money laundering risks Madinger, J. (2011) found a weak negative relationship ($r = -0.125$) between banks' failure to detect and money laundering risks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this section of the report, we provide a concise overview of the study's findings, draw conclusions based on the research, and propose recommendations that align with the study's objectives. Additionally, we identify potential avenues for future research in this chapter.

5.2 Summary of Findings

The main objective was to assess the factors contributing to the prevalence of money laundering practices in Kenya. Summary of the subsequent findings of the study were as follows;

5.2.1 Tax Evasion

The first objective was to analyze the effect of tax evasion on money laundering practices in Kenya, the study subsequently found that there is a significant linear and positive connection between tax evasion and money laundering practices. The study further found that a change in tax evasion caused a significant increase in money laundering practices, owing to the fact that increases in tax evasion avenues explained money laundering.

5.2.2 Financial Laws

The second objective was to determine the effect of financial laws and regulation on money laundering practices in Kenya. This relationship is statistically significant, as indicated by the p-value. Similarly, Financial Laws show a positive impact on money laundering

practices, with a coefficient suggesting that enhancing financial regulations could have a slight but positive effect on mitigating money laundering risks.

5.2.3 Cross-Borders Trades

The third objective was to evaluate the effect of cross-borders' trades on money laundering practices in Kenya. Moreover, Cross-Border Trades exhibit a significant positive relationship with money laundering, indicating that increased cross-border trading activities correspond to a higher likelihood of money laundering.

5.2.4 Banks Failure to Detect

The last specific objective was to establish the effect of banks failure to detect on money laundering practices in Kenya. Lastly, Bank Failures to Detect suspicious transactions also positively influence money laundering, demonstrating that improved bank detection measures are associated with a small but positive change in the efforts to reduce money laundering risks.

5.3 Conclusions

The analysis has shown a statistically significant positive relationship between tax evasion and money laundering practices in Kenya. As tax evasion increases, there is a corresponding increase in money laundering activities. This underscores the importance of addressing tax evasion as a key contributor to money laundering risks. This outcome underscores the importance of robust financial regulation and oversight in combating money laundering activities. It implies that more stringent legal frameworks and enhanced regulatory measures may serve as effective deterrents, ultimately contributing to the prevention and detection of money laundering schemes.

Financial laws and regulations have been found to have a statistically significant positive impact on money laundering practices. Strengthening financial regulations can have a slight but positive effect on mitigating money laundering risks, emphasizing the need for robust legal frameworks. The study has revealed a significant positive relationship between cross-border trades and money laundering practices. Increased cross-border trading activities correspond to a higher likelihood of money laundering, highlighting the importance of cross-border cooperation and monitoring to combat money laundering.

Banks' failure to detect suspicious transactions has a statistically significant positive influence on money laundering practices. Improved bank detection measures are associated with a small but positive change in efforts to reduce money laundering risks. This underscores the critical role of banks in the fight against money laundering and the need for enhanced detection capabilities.

In summary, this study has provided valuable insights into the factors influencing money laundering practices in Kenya. Addressing tax evasion, strengthening financial regulations, enhancing cross-border monitoring, and improving bank detection mechanisms are crucial steps in mitigating money laundering risks and safeguarding financial systems. These findings contribute to the ongoing efforts to combat financial crime and promote transparency in Kenya's financial sector.

5.4 Recommendations

Strengthen Tax Enforcement: Drawing from the literature highlighting the role of tax evasion in facilitating money laundering it is imperative for Kenyan authorities to strengthen tax enforcement measures. This may include improving tax collection processes, enhancing penalties for tax evasion, and promoting tax compliance through education and awareness campaigns

Enhance Financial Regulations: As indicated by research on the significance of financial laws and regulations policymakers should prioritize the enhancement of financial regulations in Kenya. This can involve updating and reinforcing existing financial laws, improving regulatory oversight, and aligning regulations with international best practices.

Foster Cross-Border Cooperation: Considering the impact of cross-border trades on money laundering Kenya should actively collaborate with neighboring countries and international organizations to strengthen cross-border cooperation. This includes sharing information, harmonizing trade regulations, and conducting joint investigations to curb illicit financial flows across borders

Invest in Bank Detection Capabilities: Given the research highlighting the role of banks' failure to detect suspicious transactions financial institutions in Kenya must invest in advanced anti-money laundering (AML) technologies and training for staff. This includes implementing robust transaction monitoring systems and enhancing AML compliance measures.

These recommendations are aligned with findings from the literature review and are crucial steps that Kenyan authorities and relevant stakeholders can take to combat money laundering effectively. Implementing these recommendations can contribute to a more resilient and proactive anti-money laundering framework in Kenya.

5.5 Limitations of Study

The data collection process, primarily through questionnaire, may introduce response bias or measurement error, impacting the accuracy of the results. Future research could consider using multiple data collection methods, including interviews and document analysis, to triangulate findings and reduce the potential for bias.

Additionally, this study focused on specific variables, omitting potential confounding factors that could influence money laundering practices, including but not limited to black market regulation, and income and tax act loopholes.

Furthermore, the research was conducted within the context of Kenya, and the findings may not be directly generalizable to other regions or countries with different socio-economic and regulatory environments. Improving the scope to East Africa would contribute widely to the research on money laundering.

The sample respondents were 167 a higher and broader sample would give a clearer indicator of the factors contributing to money laundering practices.

Lastly, the study did not delve into the qualitative aspects of money laundering, which could provide a more comprehensive understanding of the phenomenon. Qualitative research methods, such as interviews with money launderers or law enforcement officials, could provide valuable insights into the motivations, strategies, and challenges associated with money laundering. Incorporating qualitative research would contribute to a more comprehensive understanding of the phenomenon.

5.6 Suggestions for Further Research

Firstly, researchers can conduct exhaustive case studies and analyses of detailed money laundering schemes to uncover modus operandi, patterns, and exposures in various industries and regions.

Given the evolving nature of financial technologies, imminent research can focus on the implications of incipient technologies such as cryptocurrencies and blockchain on money laundering and the effectiveness of regulatory responses.

Further research into the challenges and shortcomings of banks in detecting and reporting suspicious transactions related to money laundering. Investigate the specific weaknesses in the existing detection systems and propose improvements.

Additionally, researchers can investigate the role of financial institutions in money laundering prevention, including the challenges they face and best practices in compliance and detection. Examining the effectiveness of international cooperation, such as mutual legal assistance treaties and information sharing agreements, in combating cross-border money laundering is another promising area.

Conduct a longitudinal study to track vicissitudes in money laundering practices in Kenya over an extended period. Evaluate whether there are any discernible tendencies or shifts in the methods and scale of money laundering activities.

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APPENDICES

Appendix I: Questionnaire

PLEASE COMPLETE THE QUESTIONNAIRE AS OBJECTIVELY AS POSSIBLE. All information provided here will be used for academic purposes only.

GENERAL INFORMATION

(a) Gender: FEMALE MALE

(b) Age Bracket 18-30 31-40 41-50

 51-60

(c) Number of Years in worked in the organization

- 3 Years & Below []
- 3-6 Years []
- Between 7- 10 years []
- Above 10 Years []

SECTION B: MONEY LAUDNERING

Please tick the appropriate box in the questionnaire where choices are provided.

Key: SA -Strongly Agree, **A**-Agree, **N**-Neutral, **D**-Disagree, **SD**- Strongly Disagree

Code	Items
ML1	Money laundering is prevalent in Kenya
ML2	I have personally encountered cases of money laundering
ML3	Money laundering is a serious issue in Kenya
ML4	Money laundering has become more sophisticated in Kenya

SECTION C: TAX EVASION

Please tick the appropriate box in the questionnaire where choices are provided.

Key: SA -Strongly Agree, **A**-Agree, **N**-Neutral, **D**-Disagree, **SD**- Strongly Disagree

Code	Items
TE1	Tax evasion contributes to money laundering practices in Kenya
TE2	Tax evasion is a significant factor in promoting money laundering in Kenya?
TE3	Current measures in Kenya are effective in curbing tax evasion as a means to prevent money laundering

SECTION C: FINANCIAL LAWS & REGUALTIONS

Key: SA -Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD- Strongly Disagree

Code	Items
FL1	Weak financial laws and regulations contribute to money laundering practices in Kenya?
FL2	financial laws and regulations in Kenya are weak in deterring money laundering?
FL3	Loopholes in financial laws and regulations make money laundering easier in Kenya

SECTION D: BORDER TRADES

Key: SA -Strongly Agree, A-Agree, N-Neutral, D-Disagree, SD- Strongly Disagree

Code	Items
CBT1	Cross-border trades contribute to money laundering practices in Kenya?
CBT2	Cross-border trade regulations are effective in preventing money laundering in Kenya?
CBT3	There are appropriate controls in cross-border trades

SECTION E: BANK FAILURES TO DETECT

Codes	Items
BF1	Banks' failure to detect suspicious activities contributes to money laundering practices in Kenya?
BF2	There is a lack of vigilance among banks in Kenya when it comes to identifying potential money laundering transactions
BF3	Banks are have effective efforts in Kenya to prevent and report money laundering activities?