

**THE ROLE OF ANTI-MONEY LAUNDERING PREVENTIVE STRATEGIES IN ENHANCING
THE FIGHT AGAINST MONEY LAUNDERING: A CASE OF SELECTED FINANCIAL
INSTITUTIONS IN THE CENTRAL BUSINESS DISTRICT OF KAMPALA**

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DECLARATION

I, Evelyn Zawedde, hereby declare that the Master's thesis I submitted to the School of Law, Uganda Christian University, in partial fulfilment of the requirement for the award of the Degree of Master of Laws, is my original research work and has not previously been submitted to this or another College or Institution for the award of any Degree.



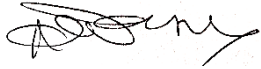
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APPROVAL

This is to confirm that my university supervisor gave his or her approval for the compilation and submission of this research report.



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ACRONYMS	
AML: Anti-Money laundering	
CDD: Customer Due Diligence	

ABSTRACT

The study aimed at establishing the role of anti-money laundering preventive strategies in enhancing the fight against money laundering. The objectives of the study were, to investigate how client due diligence affects money laundering in selected financial institutions in Uganda; to analyze how legislation influences money laundering in selected financial institutions in Uganda, and to identify the preventive measures of combating money laundering in financial institutions in Uganda.

The case study research design and a qualitative approach was adopted for the current study. Unstructured interviews, document reviews and open-ended questionnaires were used for data collection, and a sample size of 32 respondents from selected financial institutions in Uganda was involved in the study. The current study revealed that for any company or financial institution to successfully prevent money laundering, appropriate due diligence processes must be put in place. The study further revealed that the legal foundation for combating and avoiding financial crimes is provided by legislation, which is the fundamental component of anti-money laundering initiatives. AML laws that are effective build an extensive structure that includes rules, obligations, and enforcement techniques, ultimately resulting in a more transparent and secure financial system. Finally, the study revealed that Organisations must take proactive steps to prevent money laundering if they want to avoid unintentionally getting involved in unlawful financial activity. These steps lessen the possibility of legal trouble and reputational harm while ensuring that one complies with anti-money laundering (also known as AML) laws and rules.

The study concludes that customer due diligence aids organizations in better understanding their clients, evaluating risks, and spotting irregularities. States, insurance companies, and businesses can combat money laundering and safeguard the integrity of the financial system by putting these preventive measures into place and continuously improving them, which will ultimately lead to a safer and more open global economy. The study further concludes that, legislation is a key component of the global campaign to stop money laundering. It establishes the legal framework, requires the required compliance procedures, and imposes fines.

Similarly, regarding the third objective of the study, the current study concludes that to keep the financial system's integrity and stop criminal organisations from profiting from their unlawful activities, financial institutions, companies, and governments must cooperate.

The study recommends that financial institution should embrace Customer Due D because it is more than just a matter of complying with regulations. It is a vital instrument for preventing financial crime, preserving reputation, and preserving customer trust while allowing institutions to maneuver the intricate web of international finance and rules. The current study further recommends that government create laws that make use of technology to stop and identify money laundering. Use data analytics and AI-driven algorithms to find patterns and anomalies in massive datasets. Finally, the current study recommends that given that money laundering is a worldwide problem that cuts beyond national boundaries, international collaboration should be embraced by financial institutions.

CHAPTER ONE: BACKGROUND TO THE STUDY

1.0 Historical Background

The rise of organized crime in the 20th century contributed to the development of contemporary money laundering methods. During the Prohibition era in the United States (1920-1933), criminals took advantage of the illicit alcohol trade to launder money. They used businesses like speakeasies, casinos, and laundromats as fronts to integrate illegal proceeds into the legitimate economy. During the American Prohibition period (1920–1933), criminals used the illegal alcohol trade as a means of money laundering. They concealed the unlawful revenues in legitimate enterprises by operating speakeasies, casinos, and laundromats as fronts¹.

The creation of offshore banking jurisdictions provided fresh prospects for money laundering in the middle of the 20th century. Offshore accounts offered confidentiality, minimized regulation, and aided in the transfer of money across international borders. These nations could be used by criminals and tax evaders to conceal and launder their unlawful earnings².

To launder money, criminals started taking advantage of flaws in the global financial system. To conceal the source of the funds and prevent discovery, they used strategies including structuring (a division of large transactions into smaller ones to bypass reporting thresholds), smurfing (using numerous people to make transactions), and shell businesses³.

Money laundering has benefited from the digital era, but it has also faced problems. Criminals began using virtual currencies like Bitcoin, which offered some anonymity and enabled international trade without the use of conventional financial middlemen.

¹Alfa Shaban, A.R. (2017), “Ethiopia moves to ‘arrest’ smuggling of foreign currencies via main airport. Africa news”, Africa news, available at: www.africanews.com/2017/11/01/ethiopia-moves-to-arrest-smuggling-of-foreign-currencies-via-main-airport/ (accessed 24 June 2023).

²Alfa Shaban, A.R. (2017), “Ethiopia moves to ‘arrest’ smuggling of foreign currencies via main airport. Africa news”, Africa news, available at: www.africanews.com/2017/11/01/ethiopia-moves-to-arrest-smuggling-of-foreign-currencies-via-main-airport/ (accessed 24 July 2022).

³Cassara, J.A. (2016), “Trading with the enemy: trade-based money laundering is the growth industry in terror finance”, Before the Task Force to Investigate Terrorism Financing of the House Financial Services Committee February 3.

Additionally, e-commerce and online platforms offered prospects for financial gain⁴. Globalization and technical improvements made it simpler for criminals to transport and launder money globally due to the interconnection of global financial institutions. The difficulty of conducting cross-border transactions and the increased interconnection of financial institutions made it difficult for authorities to track the transit of illicit funds⁵. Governments and international organizations established stronger rules and anti-money laundering (AML) procedures in response to the growing threat of money laundering. The adoption of Know Your Customer (KYC) standards, customer due diligence, reporting requirements for questionable transactions, and global cooperation through organizations like the Financial Action Task Force (FATF) are a few of these⁶. Money laundering is continuing to change as a result of technology. To take advantage of technological breakthroughs like cryptocurrencies, online payment systems, peer-to-peer networks, and encrypted communication channels, criminals modify their methods. In order to identify and stop money laundering activities, new technologies like artificial intelligence (AI) and machine learning are also being used⁷. Authorities and financial institutions try to remain ahead of the curve as money laundering strategies develop by putting strong AML frameworks in place, advancing technology, and encouraging international cooperation to combat this global financial crime. Due to its advanced financial systems, cross-border activities, and the region's economic interdependence, money laundering is a major concern in Europe. European nations have taken the initiative to put policies into place that fight money laundering and increase financial transparency⁸.

⁴ Cassara, J.A. (2015), *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, John Wiley and Sons, Hoboken, New Jersey.

⁵ Cassara, J.A. (2016), "Trading with the enemy: trade-based money laundering is the growth industry in terror finance", Before the Task Force to Investigate Terrorism Financing of the House Financial Services Committee February 3.

⁶ Ethiopian Financial Intelligence Center (FIC). (2014), "Financial anti-money laundering and countering the financing of terrorism compliance directives number 01/2014", available at: www.fic.gov.et/Home/DownloadFile?fileName=FI%20CDD%202014.pdf (accessed 3 September 2022).

⁷ Chitimira, H. (2020), "The reliance on artificial intelligence measures to curb money laundering practices in the South African banking institutions and real estate sector", *Acta Universitatis Danubius Juridica*, Vol. 16 No. 2, pp. 28-43.

⁸ Havenga, *ibid*; see also W Ahlosani, *Anti-Money Laundering: A Comparative and Critical Analysis of the United Kingdom and the UAE'S Financial Intelligence Units* (Palgrave Macmillan: London, 2016)

To effectively combat money laundering, European nations have adopted thorough anti-money laundering (AML) legislation and regulations. These laws frequently conform to global norms established by groups like the Financial Action Task Force (FATF). The Fourth AML Directive (AMLD4) and the Fifth AML Directive (AMLD5) are two regulations that the European Union (EU) has released that establish a unified framework for AML efforts across European member Countries⁹.

Financial Intelligence Units have been set up in several European nations to collect and examine reports about shady activities from banks and other required parties. Identification of suspected money laundering activities, intelligence collecting, and information sharing with law enforcement organizations are all key functions of FIUs.

Financial institutions are required to evaluate the risks of money laundering connected to their customers, transactions, and business ties under the risk-based approach to AML that has been adopted by European nations. In order to use this strategy, institutions must put in place the proper controls based on the level of risk, such as ongoing transaction monitoring and increased due diligence for high-risk clients. In relation, financial institutions must adhere to strong due diligence standards in European nations, especially with regard to customer identification, verification, and continuing monitoring. This includes Know Your Customer (KYC) practices, where institutions must gather enough data about their clients to verify their identity and judge the legitimacy of their transactions¹⁰.

Cross-border transactions sometimes include money laundering, thus international collaboration is essential. To exchange information, coordinate investigations, and improve cooperation in the fight against money laundering, European nations work together through a variety of mechanisms, including mutual legal assistance treaties, Europol (the European Union Agency for Law Enforcement Cooperation), and Eurojust (the European Union Agency for Criminal Justice Cooperation).

Strong banking sector regulation is enforced in European nations to guarantee AML compliance. Financial institutions are supervised by national authorities and regulatory

⁹ Henning, J.J. and Hauman, M. (2017), "Fortifying a risk-based approach in the South African AML/CFT process", *Journal of Financial Crime*, Vol. 24 No. 4, pp. 520-528

¹⁰ Capital Ethiopia. (2020), "The bitcoin revolution in Ethiopia", Capital Ethiopia, available at: www.capitalethiopia.com/capital/the-bitcoin-revolution-in-ethiopia/ (accessed 3 November 2022).

agencies, who also keep an eye on their adherence to AML requirements. AML initiatives are occasionally supervised by specialized regulatory organizations, such as the Financial Conduct Authority (FCA) in the United Kingdom¹¹.

The open economies, unrestricted capital flow, and high-value industries like banking, real estate, and financial services are some of the elements that affect money laundering threats in Europe. Sectors vulnerable to money laundering have been recognized in European nations, and extra measures have been put in place to reduce these risks, such as heightened examination of politically exposed individuals (PEIs) and beneficial ownership transparency¹².

The development of cryptocurrencies and digital technology has increased the difficulty of identifying and preventing money laundering in Europe. Authorities and financial institutions are attempting to modify their AML frameworks to reflect these new dangers and ensure that virtual assets and cutting-edge payment technologies are effectively regulated and overseen.

Europe continues to place a high priority on the battle against money laundering because of the harm it causes to the economy, national security, and public confidence. Collaboration between European nations and other nations is still essential to effectively combating this unlawful activity¹³.

Africa faces a serious problem with money laundering because of a number of issues, including political unrest, lax regulatory systems, a propensity for illegal activity, and weak governance institutions. It's crucial to remember that different levels of money laundering exist throughout the continent.

Africa confronts difficulties because of a variety of unlawful activities, such as terrorism, illegal mining, wildlife trafficking, and the trafficking of drugs. To seem legitimate and

¹¹ Cassara, J.A. (2016), "Trading with the enemy: trade-based money laundering is the growth industry interor finance", Before the Task Force to Investigate Terrorism Financing of the House Financial Services Committee February 3.

¹² Ethiopian Financial Intelligence Center (FIC). (2014), "Financial anti-money laundering and countering the financing of terrorism compliance directives number 01/2014", available at: www.fic.gov.et/Home/DownloadFile?fileName=FI%20CDD%202014.pdf (accessed 3 September 2022).

¹³World Bank-ESAAMLG. (2015), "Mutual evaluation report anti-money laundering and combating the financing of terrorism the federal democratic republic of Ethiopia", available at: www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/WB-ESAAMLG-Mutual-Evaluation-Report-Ethiopia-2015.pdf (accessed 27 December 2022).

be accepted into the formal economy, the revenues from these operations frequently need to be washed.

In many African nations, corruption is rife, and money that has been stolen or obtained through bribes is laundered to hide its illegal origins. Shell companies, offshore accounts, and intricate transactions may be used in order to conceal the proceeds and reap the benefits of corruption¹⁴.

Weak Regulatory Frameworks: The anti-money laundering (AML) laws, oversight, and enforcement systems in some African nations may be insufficient. Due to these vulnerabilities, money laundering activities may be made easier. AML frameworks are being strengthened and brought into compliance with international standards in several African countries, though. Because of its location and economic connectivity, Africa offers potential for international money laundering. To transport money between nations and jurisdictions, criminals may take advantage of lax border controls, trade-based money laundering, and unofficial value transfer channels¹⁵.

In relation, due to flaws in reporting processes, compliance procedures, and customer due diligence, African financial institutions may be susceptible to money laundering. Vulnerabilities might also result from a lack of resources and the ability to put strong AML measures into place.

Terrorist financing, in which illegal monies are used to finance terrorist actions, is a problem in several parts of Africa. Techniques of money laundering are used to hide the source of these monies and provide funding for extremist organizations¹⁶.

The vast informal sector in Africa makes it easier to launder money. Cash-based transactions, a lack of regulation, and a lack of widespread financial inclusion in the official economy all present chances for illicit funds to be masked and incorporated into legal systems.

¹⁴Cassara, J.A. (2015), *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*, John Wiley and Sons, Hoboken, New Jersey.

¹⁵Munedzi, S. (2018), "The reliance on customer due diligence to enhance the combating of money laundering under the Financial Intelligence Centre Amendment Act 1 of 2017", LLM dissertation, North-West University, South Africa, pp. 17-28

¹⁶World Bank-ESAAMLG. (2015), "Mutual evaluation report anti-money laundering and combating the financing of terrorism the federal democratic republic of Ethiopia", available at: www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/WB-ESAAMLG-Mutual-Evaluation-Report-Ethiopia-2015.pdf (accessed 27 December 2022).

African nations cooperate with regional and global organizations, such as the Financial Action Task Force (FATF), the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), to strengthen their anti-money laundering (AML) efforts and improve cross-border cooperation¹⁷.

Africa is working to reduce money laundering and improve financial transparency. To combat the difficulties posed by money laundering and its detrimental effects on economic growth and stability, many nations are enacting tougher anti-money laundering rules, doing risk assessments, establishing financial intelligence units, and improving capacity-building activities¹⁸.

1.0.1 Theoretical background

The institutional theory served as the basis for the current study. The influence of both formal and informal laws, rules, and social norms on organizations and systems is examined by institutional theory, a sociological viewpoint. The importance of the larger institutional environment in influencing money laundering operations is explained in the context of money laundering by institutional theory.

The role of formal laws and rules in influencing money laundering behavior is emphasized by institutional theory. The potential for money laundering to occur depends on the strength and efficacy of anti-money laundering (AML) laws, regulations, and enforcement mechanisms. Money launderers may have the possibilities to take advantage of loopholes and engage in illegal activity if regulatory frameworks are weak or ineffective.

The institutional approach emphasizes how social expectations and norms affect money laundering behavior. The incidence of money laundering operations can be influenced by cultural attitudes, social acceptability of corruption, and customs around financial transactions. Sometimes, social acceptance of illegal activity or tolerance of it might help money laundering schemes.

Organizations and people are under pressure to live up to institutional expectations, according to institutional theory. For instance, financial firms are under regulatory and

¹⁷Sullivan, K. (2015), *Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers*, Apress, Berkeley, CA.

¹⁸Kukutschka, R.M.B. (2018), "Illicit financial flows in Ethiopia", available at: <https://beta.u4.no/publications/illicit-financial-flows-in-ethiopia.pdf> (accessed 20 December 2022)

reputational pressure to abide by AML requirements. These demands could have an impact on how they perform due diligence procedures, establish AML policies, and report suspicious transactions.

According to institutional theory, organizations have a propensity to imitate and adhere to institutional norms, leading to the adoption of identical practices and structures. This can indicate that due to pressures of imitation and isomorphism, money laundering practices may expand and become more common in particular industries or geographical areas. On the other hand, increased regulatory efforts may drive organizations to act in an isomorphic manner, for as by adopting standardized AML protocols.

The institutional theory acknowledges the part that so-called institutional entrepreneurs, who try to influence institutional contexts, play. Policymakers, law enforcement personnel, and advocacy organizations that support stricter AML rules, enforcement, and international cooperation may all fall under the category of institutional entrepreneurs in the context of money laundering. These individuals have a significant impact on how the institutional setting for fighting money laundering is shaped.

Researchers and policymakers can learn more about the systemic elements that affect money laundering behavior by using institutional theory to the study of money laundering. Understanding the institutional environment makes it possible to spot areas where AML frameworks may be strengthened, regulatory holes can be filled, and a compliance culture can be fostered within financial institutions¹⁹.

1.0.2 Conceptual Background

Money laundering is a procedure used by people or organizations to disguise the sources of money that has been gained unlawfully and make it seem as though it came from legitimate sources. Like washing clothes, the concept of "money laundering" refers to the process of turning shady or illegal money clean²⁰

Placement: Introducing illicit monies into the financial system is the goal of this phase. This can be accomplished by putting money into a bank account, buying assets like luxury

¹⁹Boli, John and George M. Thomas. 1999. "INGOs and the Organization of World Culture." Pp. 13-49 in *Constructing World Culture: International Nongovernmental Organizations Since 1875* edited by J. Boli and G. M. Thomas. Stanford, CA: Stanford University Press

²⁰Chitimira, H. (2021), "An exploration of the current regulatory aspects of money laundering in SouthAfrica", *Journal of Money Laundering Control*, Vol. 24 No. 4, pp. 789-805. *Commissioner of South African Reserve Service v Absa Bank (2003) "(2) SA 96 (W)"*

goods or real estate, or utilizing it to finance a business.

Layering: The objective at this point is to build up a complex web of transactions to hide the origin of the funds. Money can be transported between other nations or financial institutions, translated into various currencies, or utilized in a variety of financial transactions like the purchase and sale of assets.

Integration: The third step is reintroducing the money into the legal economy, making it challenging to track. This can be achieved by investing in legal assets, buying real enterprises with the money, or simply combining the funds with legitimate revenue.

In order to further conceal the source of the cash, money laundering strategies can be highly sophisticated and include shell corporations, offshore accounts, and complicated financial transactions. The final objective is to conceal the unlawful money's criminal origins and make it appear genuine²¹.

Money laundering is a serious offence with far-reaching legal and financial repercussions. It makes it possible for criminals to profit from their unlawful actions, promotes corruption, and compromises the reliability of financial systems. To identify and stop money laundering activities, governments and financial institutions around the world have put strict anti-money laundering safeguards and regulations in place²².

Money laundering has a number of detrimental effects and consequences, also known as demerits.

Money laundering makes it possible for criminals to profit from the proceeds of their unlawful actions. It gives those involved in crimes including drug trafficking, corruption, deceit, fraud, human trafficking, and terrorism a way to legalize their illicit riches. This undermines the rule of law and the welfare of society by supporting and perpetuating illicit enterprises.

Economic Consequences: Money laundering has negative effects on the economy by undermining fair competition. Once they've been cleaned up, illicit monies might be

²¹World Bank-ESAAMLG. (2015), "Mutual evaluation report anti-money laundering and combating the financing of terrorism the federal democratic republic of Ethiopia", available at: www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/WB-ESAAMLG-Mutual-Evaluation-Report-Ethiopia-2015.pdf (accessed 27 December 2022).

²²Millard and Vergano, supra n 41; see also AB Nyaude, *The Compliance Duties of Commercial Banks with Regard to Online Money Laundering* (LLM dissertation, University of Pretoria: South Africa, 2015) 3-69

invested in legal ventures, giving criminals an unfair advantage over law-abiding businesspeople. It may result in financial system distrust, transparency loss, and economic imbalances²³.

Financial institutions and systems are significantly threatened by money laundering, which also threatens their integrity. It may jeopardize the stability of banks, undermine public trust in financial institutions, and make the global financial system more susceptible to financial crimes. The proceeds of serious crimes that affect both individuals and communities are frequently linked to money laundering. Addiction, violence, exploitation, and human misery are only a few of the negative social effects of organized crime, human trafficking, and drug trafficking. Money laundering perpetuates these crimes by allowing criminals to profit from their activities.

The efficiency of institutions and governance mechanisms is weakened by money laundering. It has the potential to undermine the rule of law, damage regulatory systems, and taint public authorities. As a result, institutions may become weaker, the public may become less trusting, and there may be more opportunities for criminal activity. Governments lose tax revenue from money laundering that could be used for development and public services. It becomes harder to discern between legal and illegal income when illicit monies are incorporated into the normal economy, which reduces tax collection and increases the burden on honest taxpayers²⁴.

Global Impact: Global and transnational in nature, money laundering is a problem. It may harm international relations and hinder nations' capacity to successfully collaborate and combat transnational crimes. Additionally, it can lead to financial instability and make it easier for illegal money to move between different countries²⁵.

Governments and international organizations have put rigorous laws and rules in place to combat money laundering, increase financial transparency, and strengthen international collaboration in the fight against financial crimes in response to these drawbacks.

²³Ahlosani, W. (2016), *Anti-Money Laundering: A Comparative and Critical Analysis of the United Kingdom and the UAE'S Financial Intelligence Units*, Palgrave Macmillan, London

²⁴Ahlosani, W. (2016), *Anti-Money Laundering: A Comparative and Critical Analysis of the United Kingdom and the UAE'S Financial Intelligence Units*, Palgrave Macmillan, London

²⁵Henning, J.J. and Hauman, M. (2017), "Fortifying a risk-based approach in the South African AML/CFT process", *Journal of Financial Crime*, Vol. 24 No. 4, pp. 520-528

1.0.3 Contextual Background

Uganda has a serious problem with money laundering. Due to issues including corruption, illegal activity, lax regulatory systems, and a lack of resources for efficient enforcement, Uganda faces a number of obstacles linked to money laundering.

In Uganda, corruption is a serious problem, and money obtained through unscrupulous means is vulnerable to money laundering. Public figures and those engaged in fraud schemes may try to conceal their illicit riches by laundering them in order to avoid detection²⁶.

Uganda is susceptible to a number of criminal enterprises, including smuggling, illegal mining, wildlife trafficking, drug trafficking, and human trafficking that create profits that need to be laundered. Money laundering tactics are frequently used by criminals engaged in these activities to conceal the source of their cash and reintegrate them into the formal economy²⁷.

Resources are taken away from the economy's productive sectors via money laundering. Illegal money is frequently invested in industries like real estate, high-end goods, or financial assets, which distorts market dynamics and raises asset prices. This may worsen income disparity and obstruct long-term economic growth.

Corruption and money laundering frequently go hand in hand. To cover up their source, unscrupulous practices that produce illicit funds frequently use laundering. This strengthens a culture of corruption, erodes public confidence in institutions, and obstructs efforts to advance accountability, openness, and good governance²⁸.

By putting illegal money into the system, money laundering undermines the integrity of the financial industry. Due to these factors, financial institutions may become less stable, lending standards may be distorted, and fraud and other financial crimes may become more likely. It erodes public trust in the banking sector as a whole and may deter foreign investment. Money laundering also weakens the rule of law by making it easier for other crimes to be committed. It keeps criminal cycles going by giving offenders the means to profit from their illegal acts. This undermines efforts to uphold the law and may promote

²⁶Norman Mugarura (2023). Evolution of anti-money laundering paradigm: New Vision article

²⁷Norman Mugarura (2023). Evolution of anti-money laundering paradigm: New Vision article

²⁸Chitimira, H. and Munedzi, S. (2021), "Selected challenges associated with the reliance on customer due

an environment of impunity²⁹.

By providing a source of finance for terrorist activities, organized crime, and other criminal networks, money laundering can be a threat to national security. The capacity to move and conceal illicit funds can make it easier to finance actions that weaken social cohesion, jeopardize public safety, and destabilize the nation. In a similar vein, tax funds that could be utilized to pay for essential public services like healthcare, education, and infrastructure development are lost as a result of money laundering. This may have a detrimental effect on the delivery of necessary services to the populace and inhibit societal advancement³⁰.

By passing laws like the Anti-Money Laundering Act of 2013 and the Anti-Corruption Act of 2009, Uganda has taken action to fight money laundering. Effectively implementing and enforcing these regulations, however, continues to provide difficulties. The regulatory structure has to be improved, and regulatory bodies' and law enforcement agencies' capacities need to be strengthened. Cross-border money laundering is made possible by Uganda's geographic location and its borders with neighboring nations. To transport money across borders and countries, criminals may take advantage of lax border restrictions, trade-based money laundering, and unofficial value transfer channels³¹.

The huge informal economy in Uganda makes it easier to launder money. Cash-based transactions, a small number of people having access to financial services, and unregulated financial networks offer ways for illegal funds to be hid and incorporated into the legal financial system.

Due to flaws in client due diligence, the disclosure of questionable transactions, and regulatory compliance, Ugandan financial institutions may be susceptible to money laundering. The AML frameworks of financial institutions must be continually improved, as well as their compliance procedures³².

To strengthen its anti-money laundering efforts, Uganda works with international

²⁹Attah, C.E. (2019), "Financing terrorism in Nigeria: cutting off the oxygen", *Africa Development*, Vol. 44, No. 2, pp. 5-25.

³⁰Norman Mugarura (2023). Evolution of anti-money laundering paradigm: New Vision article

³¹Jane, Mugala (2020). The Adequacy of the Anti-Money Laundering legal Regime in Combating Money Laundering in the East African Community: a case study of Uganda.

³²Tumwesige Wycliff Elijah (2017). Regulating Sources of Money Laundering in Least Developed Countries: case study of Uganda.

organizations including the Financial Action Task Force (FATF) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). This includes adopting global best practices, taking part in mutual reviews, and obtaining technical support. In connection with this, initiatives are being made in Uganda to alleviate the problems caused by money laundering³³.

The government is working to increase enforcement capacities, strengthen the AML regime, and improve coordination with both domestic and foreign parties. The continuous fight against money laundering in Uganda includes crucial elements including strengthening institutional capacity, increasing awareness, and encouraging public-private partnerships.

Uganda has implemented measures to stop the financing of terrorism and money laundering. The Anti-Money Laundering Act of 2013 (AMLA) is the main statute in the nation addressing these issues.

Money laundering, according to the AMLA, is any transaction involving property obtained through criminal conduct with the goal of hiding the property's illegal origin. The AMLA lists a number of offenses, such as drug trafficking, terrorism, corruption, fraud, human trafficking, and organized crimes, which are regarded as predicate offenses for money laundering. Charges of money laundering can be brought against the assets obtained from these offenses.

Financial institutions, such as banks, insurance companies, and other organizations designated as reporting organizations, are required by law to alert the Financial Intelligence Authority (FIA) to suspicious transactions. When there are plausible grounds to believe that a transaction may be connected to money laundering or terrorist financing, these reports must be filed.

Financial institutions must carry out customer due diligence procedures in order to confirm the legitimacy of their clients, comprehend the nature of their transactions, and evaluate the danger of money laundering. Specific guidelines for customer identification, record-keeping, and continuing oversight are outlined under the AMLA.

To stop money laundering and financing terrorism, reporting companies need to set up

³³Munooni Sheilla (2017). The Efficiency of the Law Relating to Money Laundering in Uganda.

and apply internal controls. This entails designating a compliance officer in charge of managing AML operations, performing risk analyses, training workers, and putting internal controls in place to recognize and report suspicious transactions. The regulatory agency tasked with putting the AMLA into effect and upholding it in Uganda is the FIA. It works with national and international agencies to conduct investigations, analyze suspicious transaction reports, and disseminate them in order to stop the financing of terrorism and money laundering³⁴.

Similarly, the AMLA defines punishments for breaking the law, including fines and jail time for people and businesses found responsible for money laundering offenses. Administrative fines may also be imposed on reporting firms who fall short of deadlines for submitting reports on suspicious transactions, for example. Financial institutions in Uganda contribute significantly to the nation's economy by offering a wide range of financial services to private citizens, public entities, and corporations. Commercial banks, microfinance institutions, credit institutions, insurance firms, and other organizations accredited and governed by the Bank of Uganda, the nation's central bank, are among these institutions³⁵.

In Uganda, commercial banks are in charge of taking deposits, disbursing loans and credit, facilitating local and international payments, and providing a range of financial services. Stanbic Bank, Centenary Bank, Standard Chartered Bank, and Barclays Bank (formerly Absa Bank Uganda) are a few well-known commercial banks in Uganda. MFIs are committed to helping low-income people, microbusiness owners, and small firms with access to financing that they might not otherwise have. To meet the needs of their target population, these organizations provide microcredit, savings accounts, and other financial products. Pride Micro-finance Limited, FINCA Uganda, and Opportunity Bank Uganda are a few MFIs in Uganda³⁶.

Specialized financial services such consumer loans, mortgage financing, leasing, and

³⁴Jane, Mugala (2020). The Adequacy of the Anti-Money Laundering legal Regime in Combating Money Laundering in the East African Community: a case study of Uganda.

³⁵Atuheire Roland (2021). The Ineptness of the Anti-Money Laundering Laws of Uganda to Curb Cyber Laundering.

³⁶Mooli Albert Sibuta (2016). Efficacy in Prosecution of Crimes of Money Laundering in Uganda: a case study of the directorate of public prosecutions and financial intelligence authorit.

factoring are offered by credit institutions in Uganda. They are essential in promoting consumer spending, home financing, and corporate growth. Post Bank, Finance Trust Bank, and Opportunity Uganda Limited are a few of the financial institutions that are active in Uganda. Life insurance, health insurance, property insurance, and general insurance are just a few of the insurance products that insurance firms in Uganda offer. These businesses assist people and organizations in managing uncertainty by offering coverage and financial protection against a variety of risks. Jubilee Insurance, NIC Insurance, and Sanlam Life Insurance Uganda are some of the top insurers in Uganda³⁷. SACCOs are member-based financial organizations that give their members access to credit and savings services. They are governed by the Ministry of Trade, Industry, and Cooperatives and frequently operate at the local level. SACCOs are also essential for fostering financial inclusion and mobilizing funds in remote and underdeveloped communities. The long-term financing of development initiatives, such as those related to infrastructure improvement, agriculture, and small and medium-sized enterprises (SMEs), is another area where DFIs in Uganda concentrate. The Uganda Industrial Research Institute (UIRI) and the Uganda Development Bank (UDB) are two examples of DFIs in Uganda³⁸.

The Bank of Uganda oversees and regulates Uganda's financial institutions to maintain stability, consumer protection, and compliance with anti-money laundering and counter-terrorism funding laws. These institutions are also subject to prudential regulations, licensing requirements, and supervision. These organizations promote Uganda's economic growth and development by contributing to the country's overall financial intermediation process³⁹. For purposes of this particular study, research was carried out in three major financial institutions in Uganda. The study therefore adopted three major financial institutions of Post bank, Jubilee insurance and Prudential insurance.

1.1 Problem statement

Money laundering is a procedure used by people or organizations to disguise the sources

³⁷Munooni Sheilla (2017). The Efficiency of the Law Relating to Money Laundering in Uganda.

³⁸Atuheire Roland (2021).The Ineptness of the Anti-Money Laundering Laws of Uganda to Curb Cyber Laundering.

³⁹Tumwesige Wycliff Elijah (2017). Regulating Sources of Money Laundering in Least Developed Countries: case study of Uganda.

of unlawfully obtained funds and make it seem as though they did. Criminals can profit from the proceeds of their unlawful activity by using money laundering. It gives those involved in crimes including drug trafficking, corruption, deceit, fraud, human trafficking, and terrorism a way to legalize their illicit riches. This undermines the rule of law and the welfare of society by supporting and perpetuating illicit enterprises.

Like many other nations, Uganda has a serious problem with money laundering. Due to issues including corruption, illegal activity, lax regulatory systems, and a lack of resources for efficient enforcement, Uganda faces a number of obstacles linked to money laundering.

Uganda has put in place regulations to prevent money laundering and terrorist financing in an effort to reduce it. The Anti-Money Laundering Act of 2013 (AMLA) is the main statute in the nation addressing these issues.

Despite the several preventive measures and legislations of money laundering that the Ugandan government adopted, money laundering is still persistent and severe in Uganda. Hence, a need for a study to examine the role of preventive strategies in addressing money laundering in Uganda.

1.2 Purpose of the study

A study on preventive anti-money laundering (AML) methods serves a number of crucial functions, each of which advances the overarching objective of preventing money laundering and the related unlawful actions. The current study shall therefore serve the following purposes of;

Evaluating the efficacy of current AML measures and determining if they are accomplishing their intended goals.

Analysing how AML guidelines and compliance practices affect the fight against money laundering in Uganda.

Detecting flaws in the present AML systems, procedures, and laws. Regulators can take corrective measures to reinforce the AML framework by identifying these vulnerabilities.

Helping decision-makers understand if new AML laws or changes to already-existing ones are necessary. Additionally, it can offer information and insights that can be used to improve the design of AML rules.

1.3 Significance of the study

Terrorism and other types of international insecurity are frequently financed via money laundering. A study can aid in the better understanding and disruption of the financial structures that underpin these risks by governments and law enforcement organisations.

Global cooperation is essential since the laundering of funds is a concern. The findings may provide chances for international AML initiatives to coordinate and harmonise.

Money laundering prevention is not solely a legal and financial problem, but also a moral and ethical requirement. It ensures that companies and monetary institutions operate honestly and that illicit monies do not taint the advantages of economic activity.

1.4 Justification of the study

Financial markets and systems are seriously threatened by money laundering. Injecting illicit money into the legal economy has the potential to stifle corporate growth, raise expenses, and erode consumer confidence in financial institutions. A research can evaluate the effects of money laundering on the economy and how well AML controls these effects.

The tactics used by money launderer's change as technology advances. A research can evaluate the effects of new technology on AML initiatives and direct the creation of novel instruments and money laundering prevention techniques.

Criminals' methods are continuously changing, thus it is crucial that AML measures evolve along with them. AML tactics are kept current and efficient in identifying and combating money laundering by regular research.

1.5 General Objective of the Study

The general objective of this dissertation is to determine the role of Preventive Strategies on money laundering in selected financial institutions in Uganda.

1.5.1 Specific Objectives of the study

The specific objectives of this research are:-

- i. To investigate how client due diligence affects money laundering in selected financial institutions in Uganda.
- ii. To analyze how legislation influences money laundering in selected financial institutions in Uganda
- iii. To identify the preventive measures of combating money laundering in financial institutions in Uganda.

1.6 Research Question

- i. What client due diligence affects money laundering in selected financial institutions in Uganda?
- ii. What is the influence of legislation on money laundering in selected financial institutions in Uganda?
- iii. What are the preventive measures financial institutions in Uganda employ to combat money-laundering?

1.7 Scope of the Study

1.7.1 Content Scope

The study focused on examining role preventive intervention in combating money laundering in selected financial institutions in Uganda.

1.7.2 Geographical Scope

Selected Financial institutions within Kampala i.e., Centenary Bank, Post Bank, Housing Finance Bank. The rationale for the selected institutions is the big clientele held by the banks which makes them a target group for ML. secondly, to exhaustively study the trend of the vice and the information will be used to represent the practices in the other financial institutions.

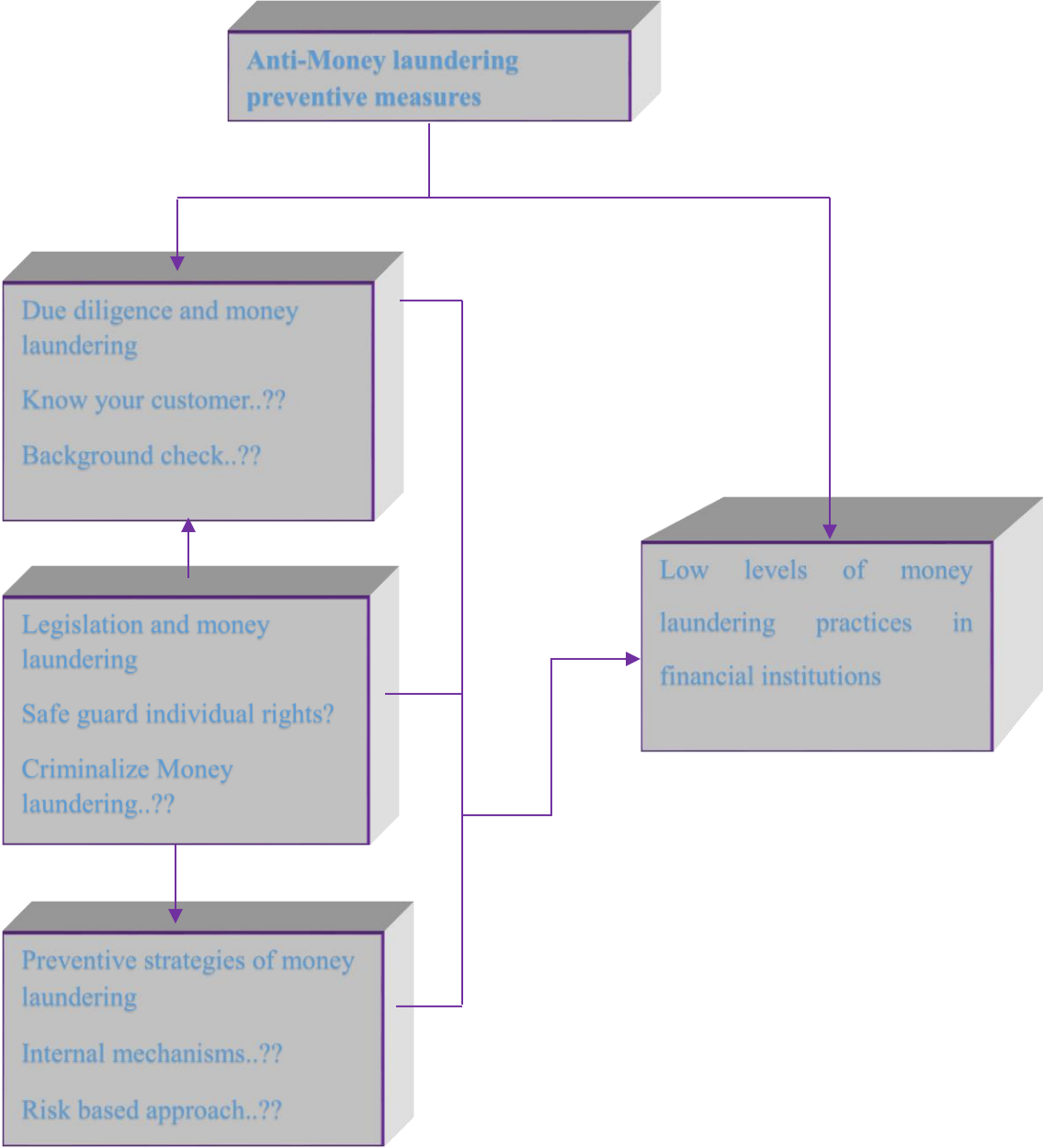
1.7.3 Time Scope

The study will cover and observe data covering from 2012-2022. The researcher chose this time frame because it's the period within which there has been a drastic increase in money laundering activities despite the legal and policy framework available.

1.8 Conceptual framework

Independent variables

Dependent variables



Source: researcher, 2023

The conceptual framework portrays the various constructs under the study. That is, the constructs under the independent variables are due diligence, preventive strategies of

money laundering and legislation. While money laundering is the dependent variable. The constructs marked?? Constitute the research gap of the study

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

A review of the available literature is a critical and methodical analysis of the corpus of published work that has already been done (i.e., the body of literature) on a given subject or research question. In the context of the current study, literature review enabled the researcher to determine what is known about a subject already and where there are knowledge gaps. It further enabled the researcher to identify topics that need additional research or inquiry by synthesising already conducted research.

This chapter therefore present the overview of preventive strategies of money laundering, theoretical review, the actual literature review and the summary of the literature review of the study and a research gap was given thereafter. The review was done thematically whereby the literature is reviewed objective by objective.

2.0.1 Overview of Money laundering

Money laundering is a procedure used by people or organizations to disguise the sources of money that has been gained unlawfully and make it seem as though it came from legitimate sources. Like washing clothes, the concept of "money laundering" refers to the process of turning unclean or illegal money clean⁴⁰

Placement, layering, and integration are just a few of the processes that money laundering goes through. In order to further conceal the source of the cash, money laundering strategies can be highly sophisticated and include shell corporations, offshore accounts, and complicated financial transactions. The final objective is to conceal the unlawful money's criminal origins and make it appear genuine⁴¹.

Money laundering is a serious offense with far-reaching legal and financial repercussions. It makes it possible for criminals to profit from their unlawful actions, promotes corruption, and compromises the reliability of financial systems. To identify and stop money laundering activities, governments and financial institutions around the world have

⁴⁰Chitimira, H. (2021), "An exploration of the current regulatory aspects of money laundering in South Africa", *Journal of Money Laundering Control*, Vol. 24 No. 4, pp. 789-805. Commissioner of South African Reserve Service v Absa Bank (2003) "(2) SA 96 (W)"

⁴¹World Bank-ESAAMLG. (2015), "Mutual evaluation report anti-money laundering and combating the financing of terrorism the federal democratic republic of Ethiopia", available at: www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/WB-ESAAMLG-Mutual-Evaluation-Report-Ethiopia-2015.pdf (accessed 27 December 2022).

put strict anti-money laundering safeguards and regulations in place⁴².

2.0.2 Theoretical background

The institutional theory served as the basis for the current study. The influence of both formal and informal laws, rules, and social norms on organizations and systems is examined by institutional theory, a sociological viewpoint. The importance of the larger institutional environment in influencing money laundering operations is explained in the context of money laundering by institutional theory.

The potential for money laundering to occur depends on the strength and efficacy of anti-money laundering (AML) laws, regulations, and enforcement mechanisms. Money launderers may have the possibility to take advantage of loopholes and engage in illegal activity if regulatory frameworks are weak or ineffective.

The institutional approach emphasizes how social expectations and norms affect money laundering behavior. The incidence of money laundering operations can be influenced by cultural attitudes, social acceptability of corruption, and customs around financial transactions. Sometimes, social acceptance of illegal activity or tolerance of it might help money laundering schemes.

Organizations and people are under pressure to live up to institutional expectations, according to institutional theory. For instance, financial firms are under regulatory and reputational pressure to abide by AML requirements. These demands could have an impact on how they perform due diligence procedures, establish AML policies, and report suspicious transactions.

According to institutional theory, organizations have a propensity to imitate and adhere to institutional norms, leading to the adoption of identical practices and structures. This can indicate that due to pressures of imitation and isomorphism, money laundering practices may expand and become more common in particular industries or geographical areas. On the other hand, increased regulatory efforts may drive organizations to act in an isomorphic manner, for as by adopting standardized AML protocols.

The institutional theory acknowledges the part that so-called institutional entrepreneurs,

⁴²Millard and Vergano, *supra* n 41; see also AB Nyaude, *The Compliance Duties of Commercial Banks with Regard to Online Money Laundering* (LLM dissertation, University of Pretoria: South Africa, 2015) 3-69

who try to influence institutional contexts, play. Policymakers, law enforcement personnel, and advocacy organizations that support stricter AML rules, enforcement, and international cooperation may all fall under the category of institutional entrepreneurs in the context of money laundering. These individuals have a significant impact on how the institutional setting for fighting money laundering is shaped.

Researchers and policymakers can learn more about the systemic elements that affect money laundering behavior by using institutional theory to the study of money laundering. Understanding the institutional environment makes it possible to spot areas where AML frameworks may be strengthened, regulatory holes can be filled, and a compliance culture can be fostered within financial institutions⁴³.

2.1.0 Review of Related Literature

This section provides the literature related to the study that has been reviewed. Literature has been reviewed basing on the themes and sub-themes that were generated from the objectives and research questions of the study.

2.1.1 Client due diligence and money laundering

Prior to engaging in a commercial transaction or establishing a business connection, it is important to do a thorough and in-depth research or inspection of a person, business, or other entity. It is a proactive and organized method for obtaining pertinent data, evaluating risks, and coming to wise judgments⁴⁴.

Identification and evaluation of potential risks, liabilities, and opportunities related to the investigation's focus are the goals of due diligence. It aids people and organizations in evaluating the other party's dependability, moral character, and financial stability in a deal or relationship. A variety of situations, such as mergers and acquisitions, investments, partnerships, and contractual agreements, call for the use of due diligence.

2.1.2 The process of Customer due diligence (CDD)

Due diligence procedures involve gathering pertinent paperwork, financial records, contracts, licenses, permits, and other information pertaining to the subject of the process.

⁴³Boli, John and George M. Thomas. 1999. "INGOs and the Organization of World Culture." Pp. 13-49 in *Constructing World Culture: International Nongovernmental Organizations Since 1875* edited by J. Boli and G. M. Thomas. Stanford, CA: Stanford University Press

⁴⁴Havenga, *ibid*; see also W Ahlosani, *Anti-Money Laundering: A Comparative and Critical Analysis of the United Kingdom and the UAE'S Financial Intelligence Units* (Palgrave Macmillan: London, 2016).

Accordingly, a crucial component of due diligence entails assessing whether the subject complies with relevant laws, regulations, and industry standards. This entails checking for compliance with rules pertaining to anti-money laundering (AML), knowing your customers (KYC), tax duties, and other laws.

In addition, determining the subject's stability and financial health as part of due diligence is essential. Analyzing cash flows, debt obligations, and potential financial hazards are all part of examining financial accounts. The process also includes assessing the subject's business operations, supply chains, contracts, clientele, rivalry, and other elements that could have an impact on the success or hazards of the deal or relationship⁴⁵.

Similar to this, doing background checks is another step in the due diligence process. The process of confirming the identity, reputation, and track record of the essential parties engaged in the transaction or connection is crucial, and it mostly involves this. This may entail running background checks, examining credentials, and evaluating any potential conflicts of interest. Understanding potential risks and liabilities related to the topic requires finding any legal issues, litigation, regulatory investigations, or prior violations⁴⁶. In corporate transactions and partnership agreements, due diligence is crucial for reducing risks, safeguarding interests, and guaranteeing compliance with legal and regulatory requirements. Due diligence has several benefits and can help individuals and organizations involved in commercial deals or partnerships in a number of ways. Due diligence aids in identifying potential risks, liabilities, and problems related to the investigation's focus. It enables parties to evaluate and comprehend the risks associated with a transaction or partnership, allowing them to put risk mitigation plans into place, negotiate advantageous terms, or even decide not to move through with the deal at all⁴⁷.

⁴⁵ Palmer, R., "Profiting from corruption: the role and responsibility of financial institutions", Global Witness, <http://globalwitness.org.www.U4.no> accessed 12. April.2022

⁴⁶ Schott, Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism Second Edition and Supplement on Special Recommendation IX. World Bank. <https://openknowledge.worldbank.org/handle/10986/6977> License: CC BY 3.0 IGO." [Accessed on 10.04.2022]

⁴⁷ Vaithilingam, S., & Nair, M. Factors affecting money laundering: lesson for developing countries. *Journal of Money Laundering Control*, 10(3), 352-366. <https://doi.org/10.1108/13685200710763506>, [accessed on 14.04.2022]

Furthermore, it is important to remember that by carrying out their due diligence, people and organizations compile thorough and trustworthy knowledge about the subject. Making decisions on the transaction or partnership on the basis of this information is essential. It gives a clearer picture of the subject's financial security, compliance with the law, operational capabilities, market position, and other critical decision-influencing elements⁴⁸.

Similar to this, doing your homework is crucial to safeguarding the interests of all parties engaged in a deal or collaboration. It aids in ensuring that the agreement's terms and conditions are reasonable and fair. Individuals and organizations can spot potential dangers, avoid fraudulent schemes, and protect their financial and operational interests by carefully studying the topic. Furthermore, the information acquired through due diligence gives people and organizations more negotiating power. Parties can bargain advantageous terms, prices, warranties, or indemnification clauses to safeguard themselves against any detected risks or uncertainties armed with precise information about the subject's strengths, weaknesses, and potential hazards⁴⁹.

In addition, due diligence also enables parties to evaluate whether the subject complies with relevant laws, rules, and industry standards. AML, KYC, tax, environmental, and other regulatory criteria are adhered to in this way, helping businesses assure compliance. Compliance with these rules promotes a more secure and moral corporate environment while reducing legal and reputational concerns. In this regard, it should be mentioned that parties can increase their reputation and trustworthiness by displaying a dedication to due diligence. Building trust and confidence among partners, investors, customers, and other stakeholders is facilitated through open and rigorous due diligence procedures. This can then result in improved business ties, more prospects, and long-term success⁵⁰.

⁴⁸ Bacwa, Assessing the Role of the Anti-Money Laundering Framework in Curbing Corruption of Politically Exposed Persons, (October, 2018). https://www.iaca.int/media/attachments/2020/01/08/timothy_bacwa_masters_thesis.pdf. [Accessed on 09.04.2022]

⁴⁹ Ahiauzu, N. and Inko-Tariah, T. (2016), "Applicability of anti-money laundering laws to legal practitioners in Nigeria NBA v. FGN & CBN", *Journal of Money Laundering Control*, Vol. 19 No. 4, pp. 329-336.

⁵⁰ Ajakaiye, O.O.P., Nwozor, A., Ojeka, J.D., Aleyomi M.B., Owoeye, G., Ojeka-John, R. and Okidu, O. (2021),

Furthermore, by carrying out due diligence, people and businesses can make better judgements, reduce risks, safeguard their interests, and meet legal and regulatory obligations. It is a crucial step that adds value and raises the possibility of profitable commercial deals and alliances.

While conducting due diligence is a worthwhile activity, it's crucial to be aware that there may also be some drawbacks or difficulties. A complete due diligence investigation, for instance, demands a great amount of time, energy, and resources. Large volumes of information must be gathered and reviewed, investigations must be made, financial analysis must be done, and talks must be conducted. This may cause delays and higher expenses, especially in complicated or large-scale transactions⁵¹.

Similar to this, obtaining complete and accurate information throughout the due diligence process may be difficult despite meticulous attempts. It may be challenging to identify potential hazards or problems if the investigation's target withholds or presents information falsely. The subject's operations or financial data may occasionally be intricate or opaque, which makes it more difficult to acquire information. In this regard, it is important to keep in mind that while due diligence can offer insightful information, it cannot assure future results or performance of the subject. Even after a careful due diligence procedure, market conditions, outside influences, or unforeseen occurrences may have an impact on the outcome of a transaction or partnership. Due diligence by itself cannot totally eliminate the inherent uncertainties of the business and economic contexts⁵².

Additionally, due diligence frequently concentrates on particular areas of study, such as finances, legal compliance, or operational capabilities. Although it gives a thorough grasp of certain topics, it might not cover every detail or potential risk relating to the topic. There is therefore always a chance that previously unknown risks or problems could materialize. Last but not least, exercising due diligence does not ensure the absence of risks or

“Media, terrorism reporting and lessons in awareness sustenance: the Nigerian newspapers’ coverage of the Chibok girls abduction”, *Brazilian Journalism Research*, Vol. 17 No. 1, pp. 118-151.

⁵¹ Chitimira, H. (2021), “An exploration of the current regulatory aspects of money laundering in South Africa”, *Journal of Money Laundering Control*, Vol. 24 No. 4, pp. 789-805.

⁵² Kersop, M. and Du Toit, S.F. (2015), “Anti-money laundering regulations and the effective use of money in South Africa”, *PER/PELJ*, Vol. 14 No. 1, pp. 1603-1635

problems. If parties only rely on the due diligence process without continual monitoring or reassessment, they risk developing a false sense of security. It is crucial to understand that risk can change or surface after a transaction, and that due diligence is only a snapshot in time.

In spite of the drawbacks mentioned above, conducting due diligence generally has more advantages than problems. Due diligence must be seen objectively, with an understanding of its limitations and as a useful instrument for risk management and well-informed decision-making⁵³.

2.1.3 Legislation against money laundering

The term "legislation" describes either the method used to create laws or the body of laws passed by a legislative body. It is the official process of formulating laws and ordinances that control many facets of society, including personal freedoms, obligations, and behavior. The basic function of legislation in constructing a nation's legal system cannot be overstated⁵⁴.

Similar to this, legislation is often produced by a legislative body through a specified legislative procedure, such as a Parliament, Congress, or Assembly. This procedure entails coming up with, developing, discussing, changing, and ultimately passing laws. The legislative body may be made up of elected officials who are tasked with enacting legislation on behalf of the constituents they serve. Legislation also encompasses a wide range of topics, such as civil law, administrative law, constitutional law, and regulatory law. It establishes people's rights and obligations, offers methods for settling conflicts, creates standards for conduct, and specifies the authority and scope of governmental organizations. Legislation can address concerns about the general welfare, business, healthcare, education, taxation, and more⁵⁵.

Furthermore, through establishing legal safeguards and protections, legislation protects

⁵³ Nyaude, A.B. (2015), "The compliance duties of commercial banks with regard to online money laundering", LLM dissertation, University of Pretoria, South Africa.

⁵⁴ Ahiauzu, N. and Inko-Tariah, T. (2016), "Applicability of anti-money laundering laws to legal practitioners in Nigeria NBA v. FGN & CBN", *Journal of Money Laundering Control*, Vol. 19 No. 4, pp. 329-336.

⁵⁵ Ajala, O. (2020), "New drivers of conflict in Nigeria: an analysis of the clashes between farmers and pastoralists", *Third World Quarterly*, Vol. 41 No. 12, pp. 2048-2066.

people's rights and liberties. It provides the boundaries within which people can enjoy their freedoms and defends them against interference by third parties or the government. The process of masking a fund's illegal source in order to make it appear legitimate is known as money laundering, and it is one of the most important issues that has to be addressed. Governments all across the world have passed legislation aimed at combating money laundering⁵⁶.

Accordingly, money laundering has been made a serious offense under international law. These laws penalize those who engage in money laundering as well as make it unlawful to use the proceeds of criminal activity in any activity. The definitions and components of money laundering offenses are spelled out in legislation. It describes what constitutes money laundering, what behaviors or transactions are criminal, and what level of intent is necessary to prove guilt. The prosecution and conviction of money launderers are aided by this clarity. Legislation frequently requires financial institutions, companies, and professions like banks, money service organizations, attorneys, accountants, and real estate agents to submit reports. These rules oblige them to adopt anti-money laundering (AML) controls, investigate their clients, keep an eye on transactions, and alert the appropriate authorities to any questionable activity⁵⁷.

Legislation frequently mandates the implementation of strict KYC procedures by financial institutions and other pertinent entities. This entails confirming consumers' identities, comprehending their financial activity, and evaluating any potential dangers involved. By ensuring the openness and traceability of financial transactions, KYC requirements seek to prevent and identify money laundering. In order to combat money laundering, legislation frequently contains measures for international collaboration and information sharing among nations. This enables law enforcement to share intelligence, proof, and

⁵⁶ Chitimira, H. and Munedzi, S. (2021), "Selected challenges associated with the reliance on customer due diligence measures to curb money laundering in South African banks and related financial institutions", *Journal of Comparative Law in Africa*, Vol 8 No. 1, pp. 42-66.

⁵⁷ Chitimira, H. and Ncube, M. (2021), "Towards ingenious technology and the robust enforcement of financial markets laws to curb money laundering in Zimbabwe", *PER/PELJ* Vol. 24, pp. 1-47.

financial data on money laundering cases across international borders⁵⁸.

Similar to this, laws offer formal procedures for seizing and freezing the proceeds of money laundering. Assets that are thought to be tied to money laundering activities can be frozen by authorities with the goal of confiscating them after a conviction. The legislation creates the regulatory organizations and agencies in charge of monitoring and implementing anti-money laundering policies. To ensure adherence to AML laws and regulations, these organizations are permitted to undertake inspections, audits, and investigations⁵⁹.

It should be noted that governments aim to establish a strong legal framework to prevent, detect, and deter money laundering activities by enacting legislation that targets this practice. These laws provide the necessary tools and legal mechanisms to investigate and prosecute money launderers, disrupt illicit financial flows, and safeguard the integrity of financial systems⁶⁰.

Legislation often establishes reporting requirements on enterprises, professionals, and financial institutions, forcing them to keep an eye on transactions and alert the authorities to any questionable activity. Due to this, it is easier to identify possible money laundering operations and report them to the appropriate law enforcement agencies. Legislation frequently calls for the implementation of stringent KYC processes, such as client identification, verification, and continuing monitoring, by financial institutions and other organizations. These steps assist in identifying and validating customers' identities, comprehending their financial activity, and identifying any potential money laundering warning signs⁶¹.

Similar to this, laws frequently include clauses allowing for international collaboration, allowing nations to cooperate and share knowledge in the fight against money laundering.

⁵⁸ Eboibi, F.E. and Mac-Barango, I. (2019), "Global eradication of money laundering and immunity for legal practitioners under the Nigerian money laundering regulation: lessons from the United Kingdom", *Beijing Law Review*, Vol. 10, pp. 769-794.

⁵⁹ Enofe, A.O., Aliu, A.K. and Atonbara, O. (2018), "Money laundering and the Nigerian economy", *International Journal of Advanced Academic Research*, Vol. 4 No. 1, pp. 185-201.

⁶⁰ FATF and GIABA (2013), "FATF report- terrorist financing in West Africa", available at: www.fatf-gafi.org/media/fatf/documents/reports/TF-in-West-Africa.pdf.

⁶¹ Morse, J. (2019), "Blacklists, market enforcement, and the global regime to combat terrorist financing", *International Organization*, Vol. 73 No. 3, pp. 511-545.

Tracking international financial transactions, exchanging intelligence, and coordinating investigations and prosecutions of money laundering cases are all made easier thanks to this cooperation. A legal framework for the freezing, seizing, and confiscation of assets obtained through money laundering activities is provided by legislation. This enables law enforcement to stop the flow of illicit money and rob criminals of their illegitimate riches. Legislative provisions on asset recovery and confiscation aid in both punishment and deterrence⁶².

The legislation creates regulatory organizations and supervisory organizations tasked with monitoring and enforcing adherence to anti-money laundering (AML) standards. These organizations keep an eye on financial institutions and other required parties to make sure they follow AML regulations, have suitable risk management systems in place, and have efficient internal controls. Legislation is frequently crafted to conform to global norms established by groups like the Financial Action Task Force (FATF). Countries show their commitment to combating money laundering by adopting and putting these standards into practice, and they also go through evaluations to determine how well they comply with the global AML effort⁶³.

In conclusion, legislation against money laundering has the overall effect of establishing a thorough legal framework that generates a hostile environment for money launderers. Legislation aids in the discovery, deterrence, and disruption of money laundering activities by creating clear regulations, enforcing sanctions, encouraging detection and reporting, and facilitating international collaboration. This preserves the integrity of financial institutions and aids in crime prevention⁶⁴.

Although legislation that targets money laundering is essential in preventing this illegal conduct, it's necessary to understand that it may have flaws or be ineffective in some situations.

Accordingly, even with strong regulations in place, effective enforcement is still necessary

⁶² Mugarura, M. (2020), "Anti-money laundering law and policy as a double edged sword", *Journal of Money Laundering Control*, Vol. 23 No. 4, pp. 899-912.

⁶³ Tiwari, M., Gepp, A. and Kumar, K. (2020), "A review of money laundering literature: the state of research in key areas", *Pacific Accounting Review*, Vol. 32 No. 2, pp. 271-303.

⁶⁴ Umar, B. and Mohammed, Z. (2021), "The effects of illicit financial flows on oil and gas revenue generation in Nigeria", *Journal of Money Laundering Control*, Vol. 24 No. 1, pp. 177-186.

to effectively prevent money laundering. The correct application of laws can be hampered by insufficient resources, a lack of specialized knowledge, corruption, and a lack of coordination between law enforcement organizations. To avoid discovery and get around current laws, money laundering strategies, and procedures are continually evolving. Criminals modify their strategies to take advantage of security flaws, emerging technologies, and weaknesses in financial systems. Legislation may find it difficult to keep up with these developing practices, which could result in coverage gaps and enforcement issues⁶⁵.

Similar to drug trafficking, money laundering is frequently a transnational crime, and criminals take advantage of regional variations in legal systems and law enforcement resources. Money laundering operations may be made possible in some jurisdictions by inconsistent or lax legislation. To effectively address cross-border concerns, governments must cooperate and harmonize their policies. Cases involving money laundering can be challenging, entailing complicated networks and intricate financial activities. It can be difficult for authorities to successfully investigate and punish money laundering crimes since legislation may not always capture all the complexities of these sophisticated schemes⁶⁶.

Additionally, law may occasionally be opaque, which makes it challenging for people and organizations to comprehend their responsibilities and compliance requirements. The effective application of legislation might be hampered by unclear or confusing language. Financial institutions, companies, and professionals are required by law to comply, which increases the regulatory load and costs. Particularly for small and medium-sized businesses (SMEs), excessive or too complex requirements can put a drain on resources and could have unforeseen repercussions. Regulation arbitrage is the practice of money launderers taking advantage of nations with laxer or less stringent regulations as a result of differences in laws and regulatory structures among different jurisdictions. Money

⁶⁵ FATF (2020), “COVID-19-related money laundering and terrorist financing – risks and policy responses”, available at: www.fatf-gafi.org/en/publications/fatfgeneral/documents/covid-19-ml-tf.html

⁶⁶ Umar, B. and Mohammed, Z. (2021), “The effects of illicit financial flows on oil and gas revenue generation in Nigeria”, *Journal of Money Laundering Control*, Vol. 24 No. 1, pp. 177-186.

laundering opportunities may arise from differences in global norms and coordination⁶⁷. Although there are international norms and frameworks, it is important to keep in mind that how they are implemented and enforced varies greatly between nations. Legislative, regulatory, and enforcement disparities can lead to weak points and obstruct efforts to successfully combat money laundering on a worldwide scale.

A comprehensive strategy is needed to address these flaws, including more international collaboration, adequate financial allocation, ongoing legislative updates, capacity building for law enforcement agencies, and improved jurisdictional coordination. In order to respond to new money laundering trends and difficulties, it is critical to periodically evaluate and update legislation⁶⁸.

2.1.4 Preventive strategies of Anti-money Laundering

In the first place, it's important to remember that stopping money laundering calls for a multifaceted strategy incorporating a range of preventive actions. To confirm and comprehend the identification of their consumers, financial institutions and organizations should set up effective KYC systems. This entails gathering the required identity materials, doing risk analyses, and keeping an eye on consumer transactions for any unusual behavior⁶⁹.

Implementing CDD procedures also entails obtaining and analyzing data regarding clients, their funding source, and the reason for their transactions. It aids in the identification and evaluation of potential dangers related to money laundering operations. Consumers who pose a higher risk of money laundering, such as politically exposed persons (PEPs), high-net-worth individuals, or consumers from high-risk jurisdictions, are subject to EDD, which is a higher level of scrutiny. EDD entails undertaking deeper background investigations, ongoing oversight, and additional verification procedures⁷⁰. Businesses and financial institutions should set up internal systems to spot suspicious

⁶⁷ Mugarura, M. (2020), "Anti-money laundering law and policy as a double edged sword", *Journal of Money Laundering Control*, Vol. 23 No. 4, pp. 899-912.

⁶⁸ Enofe, A.O., Aliu, A.K. and Atonbara, O. (2018), "Money laundering and the Nigerian economy", *International Journal of Advanced Academic Research*, Vol. 4 No. 1, pp. 185-201.

⁶⁹ U. and Aksit, S. (2020), "Challenges of combating terrorist financing in the LakeChad Region: a case of Boko Haram", *SAGE Open*, pp. 1-17, doi: 10.1177/2158244020934494.

⁷⁰ Amicelle, A. (2022), "Big data surveillance across fields: algorithmic governance for policing and regulation", *Big Data and Society*, Vol. 2022 No. 2, pp. 1-12.

transactions and report them to the appropriate authorities. SARs make it possible to quickly identify and look into probable money laundering activity. Organizations can build internal controls, risk management systems, and training programs to ensure adherence to regulatory requirements and best practices by implementing comprehensive anti-money laundering (AML) compliance programs and policies. Automated transaction monitoring systems make it possible to spot odd trends, significant cash transactions, or other questionable behavior that could point to potential money laundering. Real-time observation and data analysis assist in spotting anomalies and setting off the necessary inquiry and reporting⁷¹.

Comparably, using a risk-based strategy entails evaluating the risk related to clients, goods, services, and geographical areas. This ensures a focused and effective preventive strategy by effectively allocating resources to areas with higher money laundering risks. Governments and regulatory agencies are essential in developing and upholding anti-money laundering laws. To ensure efficient implementation of preventative measures, they should give clear instructions, carry out routine inspections, and enforce consequences for non-compliance. To effectively tackle money laundering, governments must increase their communication and collaboration internationally. Tracing international transactions and dismantling international money laundering networks are made possible by cooperation between law enforcement agencies, financial intelligence units, and regulatory organizations⁷².

Raising public awareness of the dangers and repercussions of money laundering is also crucial. Individuals and organizations can identify and report suspicious activity with the use of training and education, which supports the overall effort to stop money laundering. It's crucial to remember that preventive measures should be customized for certain sectors, regions, and dangers. Maintaining efficient preventive measures requires ongoing evaluation, upgrading of procedures, and knowledge of new money laundering trends.

Anti-Money Laundering practices have a number of benefits in the struggle against illegal financial activity. AML policies are intended to stop money laundering at its source.

⁷¹ Breslow, S., et al (2017), *The New Frontier in anti-Money Laundering*, McKinsey and Company Brief.

⁷² Chiu, I. (2017), "A new era in FinTech payment innovations? A perspective from the institutions and regulation of payment systems", *Law, Innovation and Technology*, Vol. 9 No. 2, pp. 190-234.

Organizations can spot and stop possible money laundering activities before they happen by putting in place robust customer due diligence procedures, transaction monitoring systems, and risk-based approaches⁷³.

In this regard, AML controls assist in disabling the operations of organizations engaged in illegal activity and criminal networks. Law enforcement authorities can launch investigations, seize assets, and stop the flow of illicit funds by identifying and reporting suspicious transactions, which makes it harder for criminals to make money from their illegal activities. AML protections for the financial system's integrity and stability. Financial institutions can identify and reduce risks related to money laundering by developing strong compliance programs and internal controls. This upholds public confidence, encourages openness, and lessens the possibility that financial institutions would unintentionally facilitate illegal activity⁷⁴.

Similar to this, AML policies are essential in identifying and preventing the financing of terrorists. Authorities can identify suspect patterns or finances linked to terrorism by instituting KYC measures, transaction monitoring, and suspicious transaction reporting. They can then take the necessary action to stop future funding of terrorist activities. AML regulations encourage information exchange and international collaboration between nations. This collaboration makes it possible to share financial information, best practices, and intelligence, which strengthens international efforts to prevent money laundering and terrorism financing⁷⁵.

Additionally, putting in place efficient AML controls safeguards companies from unintentionally engaging in money laundering activities. Businesses can reduce their exposure to potential risks, legal obligations, and reputational harm related to money laundering by performing due diligence on their clients and transactions. Compliance with legal requirements and regulatory requirements is ensured by the implementation of AML

⁷³ Breslow, S., et al (2017), *The New Frontier in anti-Money Laundering*, McKinsey and Company Brief.

⁷⁴ Brynjolfsson, E. and McAfee, A. (2017), "What's driving the machine learning explosion", *Harvard Business Review*, available at: <https://hbr.org/2017/07/whats-driving-the-machine-learning-explosion> (accessed 1 March 2023).

⁷⁵ Excell, D. (2019), "Using adaptive behavioral analytics to detect fraud", *Risk Management Monitor*, available at: www.riskmanagementmonitor.com/using-adaptive-behavioral-analytics-to-detect-fraud (accessed 1 March 2023).

safeguards. AML compliance shows a company's dedication to ethical business conduct, which can help it build a better reputation and foster stronger ties with partners, clients, and authorities.

Economic distortions, corruption, and the funding of criminal organizations are all influenced by money laundering and other illegal financial activity. AML controls help stop these acts, resulting in a more honest and lawful economy. This in turn supports economic progress, lessens the negative effects of organized crime on society, and creates a safer environment for both enterprises and people⁷⁶.

Although putting AML safeguards into place demands time and money, the benefits outweigh the drawbacks by fostering financial integrity, preventing criminal activity, and safeguarding the general health of the financial system and society.

Despite the fact that anti-money laundering (AML) procedures are essential in preventing illicit financial activity, it's critical to acknowledge that they have some flaws or restrictions.

The methods and techniques used to launder money alter throughout time as a result of advancements in technology, legislative changes, and enforcement initiatives. Regulations find it difficult to keep up with the continually changing strategies used by criminals to get around AML procedures. AML regulations place a heavy compliance burden on businesses, particularly smaller ones with less resources. Complex regulatory requirements can be expensive and time-consuming to comply with, thereby placing an unfair burden on some industries or governments⁷⁷.

Different jurisdictions have different AML rules and requirements, which results in regulatory fragmentation. Particularly in the context of cross-border transactions, differences in interpretation, implementation, and enforcement can provide discrepancies and loopholes that criminals may exploit.

There is still a lack of worldwide uniformity in AML procedures despite efforts to establish international norms and cooperation. Different procedures, standards, and

⁷⁶ Breslow, S., et al (2017), *The New Frontier in anti-Money Laundering*, McKinsey and Company Brief.

⁷⁷ Arner, D., et al (2019), "The identity challenge in finance: from analogue identity to digitized identification to digital KYC utilities", *European Business Organization Law Review*, Vol. 20 No. 1, pp. 55-80.

definitions used by different jurisdictions can hinder international collaboration and make it simpler for criminals to take advantage of legal loopholes. Many times, the manpower, budget, and expertise of law enforcement organizations tasked with enforcing AML safeguards are restricted. These limitations may make it difficult to effectively monitor, look into, and prosecute incidents of money laundering⁷⁸.

Rapid technological improvements consequently put old AML procedures at jeopardy. The use of emerging technology by criminals to carry out illegal financial activities that may be more difficult to identify and track includes cryptocurrency, online payment systems, and anonymizing tools. While reporting suspicious activity is an essential part of AML procedures, the accuracy and timeliness of reporting by financial institutions and other required organizations determine how well reporting systems work. The detection and investigation of money laundering operations might be hampered by inadequate reporting, false negatives, or underreporting⁷⁹.

The efficiency and sturdiness of the underlying financial systems affect AML prevention methods. The effectiveness of AML controls can be compromised by deficiencies in regulatory monitoring, governance, or controls within financial institutions, which can also lead to money laundering risks.

Similar to how there may be restrictions on information exchange, regulatory frameworks, and coordination between jurisdictions, international collaboration is essential in the fight against money laundering. Political factors, varying legal systems, and regulations governing data privacy can all obstruct productive collaboration. AML policies are primarily concerned with identifying and reporting suspicious activity. However, to effectively combat this crime and keep ahead of money laundering trends, a more proactive approach is required, such as detecting emerging threats and undertaking intelligence-led investigations⁸⁰.

Last but not least, correcting these flaws necessitates continuing assessment,

⁷⁸ Mugarura, M. (2020), "Anti-money laundering law and policy as a double edged sword", *Journal of Money Laundering Control*, Vol. 23 No. 4, pp. 899-912.

⁷⁹ Bertrand, A., Maxwell, W. and Vamparys, X. (2021), "Do AI-based anti-money laundering (AML) systems violate European fundamental rights?", *International Data Privacy Law*, Vol. 11 No. 3, p. 276.

⁸⁰ Breslow, S., et al (2017), *The New Frontier in anti-Money Laundering*, McKinsey and Company Brief.

improvements to AML standards, improved global collaboration, and technological breakthroughs. Striking a balance between efficient regulation and reducing unexpected repercussions or undue burdens on firms and people is essential⁸¹.

2.2 Conclusion

The reviewed literature indicate that Excell, (2019), concentrated on “Using adaptive behavioral analytics to detect fraud”, Breslow, et al (2017), rotated around “the New Frontier in anti-Money Laundering”, Mugarura, (2020), looked at “Anti-money laundering law and policy as a double edged sword”, Arner, et al (2019), concentrated on “The identity challenge in finance: from analogue identity to digitized identification to digital KYC utilities”, Bertrand, A., Maxwell & Vamparys (2021), “Do AI-based anti-money laundering (AML) systems violate European fundamental rights?”, Chitimira & Munedzi, (2021), looked at “Selected challenges associated with the reliance on customer due diligence measures to curb money laundering in South African banks and related financial institutions” while Bacwa (2018) aimed at “Assessing the Role of the Anti-Money Laundering Framework in Curbing Corruption of Politically Exposed Persons”. The reviewed literature indicate that little has been published about the role of anti-money laundering preventive strategies in enhancing the fight against money in Uganda hence, the contemporary study to bridge the existing knowledge gap.

⁸¹ Excell, D. (2019), “Using adaptive behavioral analytics to detect fraud”, Risk Management Monitor, available at: www.riskmanagementmonitor.com/using-adaptive-behavioral-analytics-to-detect-fraud (accessed 1 March 2023).

CHAPTER THREE: LEGAL REVIEW

3.0 Central pieces of legislation for Uganda's efforts to combat AML

In relation, the current study under objective number two further sought to establish the legislative measures that are central in the fight against money laundering. The analyzed data pinpoint the anti-money laundering Act, 2013, the terrorism Act, 2015 as amended, the Financial Institutions Act, 2004, the Proceeds of Crime Act, 2009, the Mutual Legal Assistance (Criminal Matters) Act, 2006, the Counter-Terrorism Act, 2002, the Tax Procedures Code Act, 2014, The Companies Act, 2012, the Anti-Corruption Act, 2009, and the Non-Governmental Organizations Act, 2016. The findings are in conformity with the reviewed documents on money-laundering that make it an offense to indulge into money-laundering practices. The finding further resonates with the institutional theory that assumes that the potential of money-laundering depends on the strength and efficiency of anti-money laundering laws, regulations, and enforcement mechanisms.

The combination of these legislative changes provides Uganda's AML activities with a solid legal base. They specify reporting requirements, create due diligence standards for financial institutions, and give authorities the legal means to look into and pursue money laundering offences. They also define money laundering as a criminal offence. Additionally, to strengthen international collaboration in the fight against money laundering, Uganda's legal system complies with international norms, particularly those established by the Financial Action Task Force (FATF).

Uganda versus Kanya Valentino: The defendant incorporated SHAMMAH INVESTMENTS LTD being his company's name, designating his parents-in-law to be joint owners. Then, he registered under this company's identity the property he had obtained with the money he had stolen from the Embassy. It was determined, therefore, that the corporation was merely a front for the implicated person's possession of the purchased property and had no actual presence or commercial activity.

Uganda versus XY & 2 Others: The defendant worked as an accountant at Western Cables Limited & got paid by checks that she received as the representative of her employer. The defendant and her spouse formed a business under the pseudonym Westerner Cables (U) Ltd, which happens to be the same as the identity of her employer, with the intent to steal the funds in question. Along with opening an official bank account under their

organization's name, the defendant and her spouse signed the account together. After that, she would deposit the checks into her Westerner Cables account, from which she as well as her spouse would take withdrawals. They purchased some property with the money, a certain amount of which was put on record in the accused's sister's name. They additionally settled their children's education insurance coverage and their own life insurance. The Anti-Corruption Court is hearing arguments from the Accountant, her spouse, and her sister over various allegations of embezzlement and money laundering involving Shs. 3,849,868,242/=.

The duo case laws indicate that Businesses and their accounts can be turned into fronts to launder money obtained from criminal activity. For example, businesses could be utilised improperly to conceal and obfuscate beneficial ownership. The most common way that organised crime groups, such as corruption cartels, mistreat businesses is by using legal frameworks to obscure beneficial management and mask criminal activity. The reason for this is that beneficial ownership data doesn't exist via the corporations' registry and neither the URSB nor certainly not the corporations themselves are required by the Companies Act to acquire, preserve, or maintain it.

Further still, Companies that are incorporated as well as registered throughout Uganda may be used improperly to support money laundering through trade. According to recent studies, Ugandan businesses engaged in foreign trade may attempt to launder money via smuggling as well as false invoicing, among other money laundering tactics. Many businesses may commit multi-jurisdictional crimes since they have economic links with nations like China, the United Arab Emirates, Vietnam, Turkey, etc. For example, the Uganda Revenue Authority looked into possible tax evasions between 2018–2020 after the FIA released seven intelligence reports.

3.1 The legislation's framework's shortcomings

The Registrar of firms is not required by law to receive data regarding beneficial ownership from registered firms. According to the Companies Act, just a register regarding shareholders as well as directors is needed by law; while beneficial ownership data is not required to be disclosed. On the other hand, data kept at the company registry is promptly accessible. A Ministry, Department, as well as Agency of Government shall have no obligation to pay a fee regarding a duplicate of any record regarding the register which is needed by that Ministry, Division, or Agency of Government within the execution of its function, according to Regulation 10(4) of the Companies (Powers of the Registrar) Regulations No. 71 of 2012.

Further still if authorized by its articles, a corporation limited by shares can give out share warrants among bearers in accordance with Section 95 under the Companies Act. The shares mentioned in the warrant constitute the shares to which the bearer is entitled, and the shares may be transferred by delivering the warrant. However, the Act doesn't provide any safeguards against share warrants being misused for money laundering.

Similarly, two persons may be appointed as nominated as well as alternate directors within single-member corporations pursuant to sec 186 under the corporations Act. One nominated director will serve as an interim nominee in the instance that the lone member passes away, and the additional nominee director will serve as a backup nominee in the happening that the additional nominee director is unavailable. The processes for selecting nominee directors aren't defined, with the exception of a single member proposing the candidates. The likelihood of such a protocol being misused increases if there are no legal constraints controlling the nominee directors' nomination.

Finally, Sections 96 (which establishes a penalty for impersonating a shareholder) along with 97 (which establishes penalties for offences related to share warrants) present safeguards to prohibit fraudulent use of bearer shares as well as share warrants spanning money laundering objectives. These provisions should be reinforced. If permitted by its articles, a corporation limited by shares can send share warrants among bearers in accordance with Section 95 under the Companies Act. The shares mentioned in the warrant constitute the shares to which the bearer is entitled, and the shares may be transferred by delivering the warrant.

CHAPTER FOUR: METHODOLOGY

4.0 Introduction:

Methodology is the systematic, theoretical analysis of the methods applied to a field of study. It comprises of the theoretical analysis of the body of methods and principles associated with a branch of knowledge. This chapter presents the area of the study, research design, population of the study, sampling methods and techniques, sample size, data collection methods and instruments, data quality control, presentation and analysis of data, ethical issues, anticipated limitations, and delimitation to the study⁸².

4.1 Legal and policy framework on anti-money laundering in Uganda

According to the anti-money laundering Act 2013, money laundering is defined as participating in financial transactions in order to mask or obscure the illegal source of monies obtained via criminal activity and its a crime in Uganda as per section 116 of the said Act.

Further still, according to section 18 (1-3) the Financial Intelligence Authority is the principal regulatory body in charge of putting AML and CTF regulations into effect and upholding them in Uganda. The Act further provides that, receiving, examining, including disseminating financial intelligence about money laundering and terrorism financing is the responsibility of the FIA.

Similarly, the anti-money laundering Act further mandates the implementation of client due diligence procedures by recognized non-monetary enterprises and occupations (DNFBPs), including financial institutions such as insurance firms, banks, and other financial intermediaries. This entails locating and confirming customers' identities, keeping an eye on transactions, and performing increased due diligence for clients who pose a higher risk.

Section 9 (1) provides that, the FIA must be notified of any questionable transactions by corporations subject to the Act. The Act promotes collaboration with law enforcement and offers security to informants who disclose shady dealings.

According to section 7 (1) paragraphs (a-d), records of client transactions and other

pertinent paperwork must be kept by covered companies for a specific amount of time. These documents are essential for AML audits and investigations.

In relation, the anti-money laundering Act 2013, under section 136 (1), (2) and (3) specifies punishments for offences including the financing of terrorism and money laundering. These sanctions may include jail time and financial penalties. The Act also permits the seizure and freezing of assets used in the laundering of funds or terrorist financing.

Through this Act, Uganda demonstrates its dedication to international collaboration in AML initiatives. The nation works with other nations and organisations to fight international money laundering and terrorism financing as a member of what is known as the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

4.1.1 Research design:

Research designs are procedures for collecting, analyzing, interpreting, and reporting data in research studies. The study adopted a case study design. The Research design was important because it facilitated the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time, and money⁸³. The case study research design involves an in-depth study of a problem and allows the study to break down complex issues through a detailed contextual analysis of a small population. Case studies are preferred for studies that will focus on a situation or location. This study focused on establishing preventive strategies for money laundering in financial institutions in Uganda.

The current study further adopted a qualitative approach for data analysis and interpretation⁸⁴. A qualitative research approach was preferred because of inquiries into social phenomena in natural settings.

4.1.2 Area of the study:

Area of study is a description of the geographical area and should try to describe to the

⁸³ Yin, R. K. (2018). *Case Study Research and Applications*. 6th Ed. California: Sage Publications

⁸⁴ Creswell, J. W., & Creswell, J. D. (2018). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Google Books. SAGE Publications, Inc.

reader where that place is located using known places. The study was conducted at Post Bank, Prudential insurance, and Jubliees insurance,⁸⁵. The financial intitutions were preferred because they have been in the banking field for so long.

4.1.3 Population of the study

Population means total sum of all units of interest or the universe. Often the term refers to human beings, but could as well refer to population of any other units. The population from which data was collected was the staff of the selected financial institutions of Post Bank, Jubliees insurance, and Prudencial The study focused on the staff from the selected financial institutions because they have high understanding of the phenomenon. Hence they were able to give more and clear information about the preventive strategies of money laundering in financial institutions in Uganda. That is, four legal officers, four ICT personels, ten compliance officers, three Bank managers, four supervisors, and 10 operational managers.

Table 1: Population category and sample size

CATERGORY	NO. OF STAFF	SAMP LE SIZE	SAMPLING TECHNIQUE
Legal department s	4	4	Purposive Simple random sampling.
ICT personals	4	4	
Compliance officers	10	10	
Managers	03	03	
Supervisors	4	4	
Operationa	10	10	

1 Managers			
Grand Total	35	35	

Source: Field Data 2023

4.2.0 Sampling, and sampling techniques

4.2.1 Sample size

According to Creswell (2018), qualitative studies recommend small sample size. The study therefore, adopted the population of 35 as the sample size. This is also in the range of Denzin and Lincoln (2018) recommend for qualitative studies when they offer a range of 30 to 50 interviewees⁸⁶.

4.3 Data Collection Methods

These are the ways through which data was collected from the field. The researcher employed face-to-face interviews and document reviews and questionnaires as the methods to guide in gathering data.

4.3.1 Document review:

Is the methodical evaluation and examination of preexisting paperwork, records, and materials relevant to a particular research topic or question. The study employed document review method because the method enable researchers to examine historical documentation, archives, and documents, giving them important insights into past events, patterns, and occurrences.

4.3.2 The questionnaire:

The questionnaire is a type of research tool or tool for data collecting that consists of a systematic series of inquiries, prompts, or other things intended to elicit data, information, or responses from respondents who may be persons or organisations. In addition, the study further adopted questionnaires method because questionnaires offer a systematic format for data collecting. The uniformity makes it easier to compare data from different people and analyse it.

4.3.3 Interviews: Describes a process where a researcher or interviewer interacts with one or more participants or interviewees face-to-face, virtually, or over the phone as part of an interview. Finally, the contemporary study preferred interviews because they provide

in-depth investigation and give researchers access to respondents' thoughts, experiences, and viewpoints.

These are qualitative data collection methods which fit well with the approach adopted. These methods were developed to cover all the target respondents and the process was as discussed below⁸⁷.

4.4 Data collection tools/ Instruments

During the research process, data collecting instruments are tools or equipment that researchers employ to collect information or data from respondents or sources in a methodical and structured manner. Based on the research technique and aims, these instruments might vary in complexity and structure to collect data pertinent to the research objectives. Researchers use data gathering tools to compile empirical data to address research topics and evaluate hypotheses⁸⁸.

⁸⁷ Kothari, C R & Gaurav G. (2014). *Research methodology , Methods and and technique. New Age International Publishers* (Vol. Third edit). Retrieved from [http://www.scopus.com/record/display.uri?eid=2-s2.0-84944930989&origin=resultslist&sort=plf-f&src=s&st1=community+tourism&st2=&sid=686F494337C9F3D35098299E64E9C308.fM4vPBipdL1BpirDq5Cw:190&sot=b&sdt=b&sl=32&s=TITLE-ABS-KEY\(communit+tourism\)&relpos=](http://www.scopus.com/record/display.uri?eid=2-s2.0-84944930989&origin=resultslist&sort=plf-f&src=s&st1=community+tourism&st2=&sid=686F494337C9F3D35098299E64E9C308.fM4vPBipdL1BpirDq5Cw:190&sot=b&sdt=b&sl=32&s=TITLE-ABS-KEY(communit+tourism)&relpos=) accessed January 24th 2021

⁸⁸ Kothari, C R & Gaurav G. (2014). *Research methodology , Methods and and technique. New Age International Publishers* (Vol. Third edit). Retrieved from [http://www.scopus.com/record/display.uri?eid=2-s2.0-84944930989&origin=resultslist&sort=plf-f&src=s&st1=community+tourism&st2=&sid=686F494337C9F3D35098299E64E9C308.fM4vPBipdL1BpirDq5Cw:190&sot=b&sdt=b&sl=32&s=TITLE-ABS-KEY\(communit+tourism\)&relpos=](http://www.scopus.com/record/display.uri?eid=2-s2.0-84944930989&origin=resultslist&sort=plf-f&src=s&st1=community+tourism&st2=&sid=686F494337C9F3D35098299E64E9C308.fM4vPBipdL1BpirDq5Cw:190&sot=b&sdt=b&sl=32&s=TITLE-ABS-KEY(communit+tourism)&relpos=) accessed January 24th 2021

4.4.1 Document review guide:

In order to thoroughly and methodically study and analyse papers, records, or other pieces of writing as component of an educational project or investigation, reviewers and researchers employ document review guides. The contemporary study used a document review manual as a methodical framework for gathering, arranging, and assessing pertinent data from documents. For instance, the researcher reviewed the anti-money laundering Act 2013 and many more other documents that were related to anti-money laundering in Uganda (see Appendix iv).

4.4.2 Interview guide:

The tool enabled the researcher to acquire factual information from the informants. Face-to-face interviews were held between the researcher and different staff members of the three selected financial institutions in Uganda. The informants were subjected to face-to-face unstructured interviews because the researcher wanted to gather detailed information about the study topic so as to minimize non-response issues that come along with other methods.

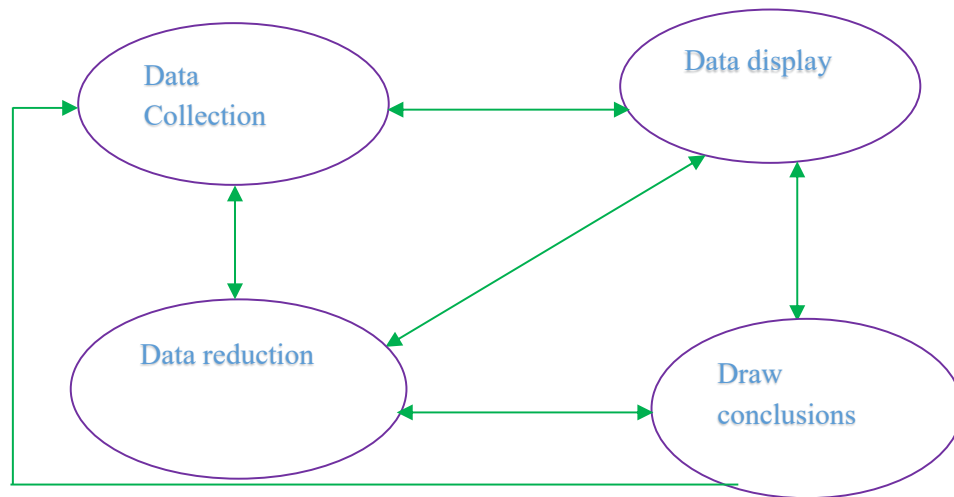
Face to face Interviews were scheduled after the informants explained their work schedules to the researcher. She further rescheduled dates and times for interviews based on the agreement with the informants (see Appendix iv).

4.5 Analysis and Presentation of Data

Data Analysis is a process of collecting, transforming, cleaning, and modeling data with the goal of discovering the required information⁸⁹. The researcher used the Interactive Model of Data Analysis. This research by Miles and Huberman 1994 is to present a holistic view of data rather than a condensed view. Through this model, the researcher collected data, displayed it, and then reduced it by removing irrelevant data to the study.

⁸⁹ Denzin, N. K., & Lincoln, Y. S. (2018). *Introduction: The Discipline and Practice of Qualitative Research. The Sage Handbook of Qualitative Research*. California: Sage Publications

Figure 2: Data Analysis Model



Source: Miles and Huberman (1994)

The elements of the data analysis model were applied as follows:

4.5.1 Data collection

Data was collected through face to face interviews and document reviews about preventive strategies of money laundering in financial institutions in Uganda. Face to face interviews were held with the entire population (35) of the selected banks in Uganda. The researcher also used document review method and the documents reviewed included: customer due diligence documents

4.5.2 Data display

All the collected information was displayed by the researcher to help in the presentation of inferences and conclusions and represent ways of organizing, summarizing, simplifying, or transforming data.

4.5.3 Data reduction

Data reduction was done after reading and analyzing all the collected data. Various pieces of information were synthesized from the different methods that were used during data collection. The data that was most relevant was utilised to draw conclusions and recommendations; and the rest was discarded out.

4.5.4 Draw conclusions

After collection, display and reduction of data, the researcher finally drew conclusions

4.5.5 Data quality control measures:

Data quality control refers to the efforts and procedures that researchers put in place to ensure the quality and accuracy of data being collected using the methodologies chosen for a particular study⁹⁰. To ensure quality in the research process and results, the following were undertaken:

4.5.6 Objectivity

While carrying out the study, the researcher was objective. In this case, she wrote down her findings the way they were given to her without changing the meaning with the aim of satisfying her personal ideologies. For example, during a face-to-face interview with one of the Bank managers, the researcher asked the causes of many laundering and their impact on financial institutions in Uganda

4.5.7 Triangulation

Triangulation involves the use of multiple methods to collect data. For example, the researcher used face to face interviews and document reviews to collect data⁹¹. To come up with reliable information, the researcher compared data from the 35 informants who included: Bank Manager, operational manager and legal personnel's from the three selected financial institutions.

4.6 Ethical Considerations.

According to Bryman and Bell (2018), ethics are the norms or standards of conduct that distinguish between right and wrong. Ethical considerations prevented against the fabrication or falsifying of data which promotes the pursuit of knowledge and truth which is the primary goal of research. Here, the survey procedure and instruments received ethical approval from the relevant authorities. It aimed at the preservation of individual and community dignity⁹².

The collection of data for this study was also to be guided by the endnote rules and

⁹⁰ Creswell, J. W., & Creswell, J. D. (2018). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. Google Books. SAGE Publications, Inc.

⁹¹ Denzin, N. K., & Lincoln, Y. S. (2018). *Introduction: The Discipline and Practice of Qualitative Research. The Sage Handbook of Qualitative Research*. California: Sage Publications

⁹² Bryman, A., & Bell, Harley, B. (2018). *Business research methods*. Oxford: Oxford University Press

regulations which call for the establishment of a clear and fair agreement with research participants prior to their participation. The obligations and responsibilities of each party and the primary responsibility of honoring all commitments and promises were included in the agreement by the researcher. In regard to the above, the researcher considered the following ethics:

4.6.1 Introductory Letter

An introductory letter is a permission given to the researcher from the organization where research work is needed to the organization where research is to be carried out. The researcher secured an introductory letter for data collection from the Faculty of Laws, Uganda Christian University. This acted as a testimonial to different people such as the management of managers, legal personnel, and operational managers of the selected financial institutions in Uganda (see **Appendix i**).

4.6.2 Informed Consent

The researcher sought informed consent from the respondents by asking respondents to spare time and attend to her about the research study before subjecting them to interviews. Permission was requested before accessing certain documents and areas where information materials are kept in the selected financial institutions in Uganda. Research informants were also informed whether they were free to participate in the research or not (see **Appendix ii**).

4.6.3 Privacy and Confidentiality

The researcher considered the privacy and confidentiality of the respondents by making the data provided private and confidential through ensuring anonymity of the respondents without expressing their identity. The research participants were assured of confidentiality. They were not requested to indicate their names or any personal particulars on the questionnaire which would lead to disclosure of their privacy. Research participants were assured that the data collected from the questionnaire would be treated as collective responses from all the respondents.

4.6.4 Honesty

Honesty was maintained in the reporting of data, methods, procedures and publication status. This research study has not fabricated, falsified or misrepresented data to the colleagues and the public at large. During data collection process, the researcher sought

permission from the management of the selected financial institutions.

4.6.5 Respect for intellectual property

The content of this work honours patents, copyright and other forms of intellectual property. Unpublished data, methods or results without permission have not been considered at all and with due respect acknowledging fellow authors has been fully done. Credit has been given by acknowledging and citing the responsible authors to maintain quality assurance and avoid plagiarism. All publications that have been referred to in this study have been acknowledged and referenced to. Respect for the dignity of research participants was also prioritized, and the protection of the privacy of research participants was ensured.

4.13 Delimitation to the study

1. On the issue of repeated appointment rescheduling, the researcher did not give up but kept on rescheduling until all interviews were conducted.
2. To overcome financial constraints, the researcher requested support from relatives, members, and friends.

CHAPTER FIVE: DATA ANALYSIS AND PRESENTATION

5.1 Introduction:

The study's findings are presented and discussed in this chapter. The findings are discussed and presented in accordance with themes and sub-themes drawn from the study's goals and research questions.

The objectives of the study were; to investigate how client due diligence affects money laundering in selected financial institutions in Uganda; to analyze how legislation influences money laundering in selected financial institutions in Uganda; to identify the preventive measures of combating money laundering in selected financial institutions in Uganda. The following research questions were the focus of this study: How does client due diligence affect money laundering in selected financial institutions in Uganda?; What is the influence of legislation on money laundering in selected financial institutions in Uganda? What are the preventive measures financial institutions in Uganda employ to combat money-laundering?

5.1.1 Description of the respondents

Table: 1 Description of Respondents by Gender

S/n	Male	Female
	21	14
	Total	35

Source: Primary data

Table one above indicate that majority of the respondents were male (21) while the female were fourteen (14). It should be noted that when both men and women are included in studies, the findings are more likely to be generalizable to the overall community. As a result, outcomes are more applicable to and helpful for a wider group of people, increasing their generalizability.

5.1.2 Description of respondents by education levels

S/n	Academic qualification	Number
	Diploma	0
	Bachelor Degree	29
	Master's Degree	6
	PhD.	0

Source: Primary data

Table 2 above indicate that majority of the respondents were Degree holders (29) while six respondents hold Master's Degree. This signifies that the respondents had the expertise and or were in the best position to answer the questions related to the phenomena under investigation.

5.1.3 Response Rate

Regarding the response rate, the study recorded a response rate of one hundred percent. The one hundred percent response rate is attributed to the data collection methods that the researcher adopted. In this case, three Legal officers, four ICT officers, three Bank managers and four supervisors were subjected to unstructured interviews while ten operational managers and ten compliance officers were subjected to open-ended questionnaires.

The researcher sought appointments with respondents prior to interviews and hence was in the position to interview all of them. In addition, the researcher also used open-ended questionnaires to gather data from operational managers and compliance officers. Open-ended questionnaires are user-friendly and thus, it partly explains why all respondents returned their questionnaires on time.

5.1.4 Objective One: To investigate how client due diligence affects money laundering in selected financial institutions in Uganda.

How does the procedure for locating and stopping money laundering relate to due diligence?

Regarding how due diligence relates to the process of identifying and preventing money laundering, the current study established that, due diligence relate to the entire process identifying and preventing money laundering be enabling financial institutions to evaluate risks attached to suspected money laundering, identifying act geographical location, transaction patterns, client profile and the nature of business. For instance, respondents code-named RC1, RCF3, RCF4 and ROM10 via unstructured questionnaire highlighted that,

“By enabling people, organizations, and financial institutions to carefully evaluate and reduce the risks connected with suspected money laundering activities, due diligence plays a significant role in recognizing and preventing money laundering. It is an essential

part of attempts to combat terrorism financing and money laundering” RC1, RCF3, RCF4 and ROM10.

In relation, respondents code-named ROM1, ROM4, and ROCF2

“Due diligence is carrying out a risk analysis to pinpoint clients, associates, suppliers, or transactions that could present a higher risk of being involved in money laundering or other illegal activities. This evaluation takes into account a number of variables, including the type of business, geographic area, client profiles, and transaction patterns” ROM1, ROM4, ROCF2.

Similarly, respondent code-named RCF6 and ROM4 via unstructured questionnaire emphasized that

“Financial institutions must carry out CDD in order to identify their clients, comprehend their financial actions, and evaluate their risk. This procedure aids in locating clients who may be seeking to commit financial crimes or money laundering” RCF6 and ROM4.

Further still, respondents code-named ROM10 via unstructured questionnaire highlighted that

“Continuous transaction monitoring is a necessary component of effective due diligence in order to spot any questionable trends or behaviors. The detection of suspected money laundering attempts is aided by alerts for additional inquiry that can be set off by unusual transactions, big cash deposits, or regular movement of funds” ROM10.

Finally, respondents code-named RCF9, RCF8, RCF7, ROM7, ROM9 and ROM5 via unstructured questionnaires categorically stated that,

“Effective documenting and tracking of client contacts, transactions, and investigations are part of thorough due diligence. This documentation confirms compliance with regulatory standards as well as the institution's efforts to prevent money laundering” RCF9, RCF8, RCF7, ROM7, ROM9 and ROM5.

Due diligence is a continual procedure that involves monitoring client activity and revising risk assessments as conditions change. Ongoing surveillance makes it easier to spot changing money laundering trends.

5.1.4.1 How do criminals often use financial institutions to launder money?

In an effort to conceal the funds' illicit origins and make them seem legitimate, criminals

use a number of ways and procedures to launder money through financial institutions. The analyzed data indicates that criminals normally connive with bank staff, split money into small amounts, use front firms and sometimes inflate the value goods and services in order to launder money. For instance, when interviewed, respondent code-named RBM1 had this to say,

“Hmm..., to avoid being caught, thieves split huge sums of money into smaller, less obvious amounts. They “smurf” the money into the financial system by making several little, undetectable deposits or transactions...” RBM1.

In relation, when interviewed, respondent code-named RBM2 highlighted that,

“My dear, criminals use front firms or shell corporations that look genuine but are really just a way to launder money. They might create fictitious invoices or transactions using these organizations to conceal the money's true source” RBM2.

Further still, when interviewed, Respondent code-named RBM4 had this to say,

“Woo, they normally inflate the value of the goods or services being transferred or manipulate trade transactions. Using this method, they can move money across borders while hiding its origin by inflating the value of products listed on paperwork in comparison to their actual value. Real estate is a common investment for money launderers. After that, the property is sold so they can “clean” the money and make it seem real.” RBM3.

In addition, respondent code-named RBM3 via unstructured interviews added on to say that,

“Some criminals work along with dishonest bank staff to enable money laundering. Criminals may submit loan applications using money that has been laundered, leaving a paper trail that reflects legitimate income. Once the money is received, they use the “cleaned” money to pay back the debts” RBM3.

5.1.4.2 How can financial systems, economies, and even society at large suffer from money laundering?

The study further sought to establish the impact of money laundering on the financial institutions, the economy as well as the society at large. For instance, when interviewed, respondent code-named RB1 had this to say,

“My dear, money laundering erodes confidence in the banking system as a whole as

well as in financial institutions. When financial firms are linked to wrongdoing, the reputation of the industry as a whole suffers” RBM1.

In relation, when interviewed, respondent code-named RB2 emphasized that,

“Let me tell you, to be in compliance with regulations, financial institutions spend a lot of money putting anti-money laundering (AML) procedures in place. These expenses may have an impact on profitability and impede innovation. You should also get it from me, institutions that fall short in their efforts to stop money laundering are subjected to harsh regulatory penalties, including fines, license revocation, and legal action” RBM2.

In addition, when interviewed, respondent code-named RBM3 had this to say,

“...money laundering can cause societal unrest by giving criminal organizations access to political power, which breeds corruption and undermines the rule of law. Money laundering further encourages criminal organizations to engage in acts of violence, human exploitation, and other negative activities, which have a direct influence on people's safety and well-being as well as the well-being of their communities” RBM3.

The essential values of openness, honesty, and justice in financial institutions and communities are undercut by money laundering. Beyond financial institutions, it has an impact on various facets of economies and society. Governments, financial institutions, regulatory agencies, and international organisations must work together to combat money laundering by putting into place efficient preventive measures and fostering a safe and transparent financial environment.

5.1.4.3 The application due diligence practices aid in the fight against money laundering?

The study further sought to establish the effectiveness of due diligence procedures in the fight against money laundering. The findings of the current study indicate that due diligence is crucial in the identification, prevention and deterrence of money laundering activities. For instance, respondent code-named ROM10, ROM7 and RCF1 via unstructured questionnaires indicated that,

“The most important aspects of the fight against money laundering is the adoption of efficient due diligence procedures. Evaluating the risks connected to clients, transactions, and relationships, due diligence aids in the identification, prevention, and deterrence of money laundering activities” ROM10, ROM7 and RCF1.

In relation, respondents code-named RC2 and RCF10 via questionnaires indicated mentioned that,

“The process of assessing the risk profiles of customers, transactions, and counterparts is a part of due diligence operations. Financial institutions use this assessment to find high-risk persons or entities that may be engaged in money-laundering operations” RC2 and RCF10.

Furthermore, respondents code-named RC3, RC4 and ROM6 via unstructured questionnaire indicated that,

“Verifying the identity of clients through trustworthy documents and authentication techniques is necessary for effective due diligence. By practicing due diligence, it is ensured that consumers are who they say they are, and there is less chance that thieves will use stolen identities to launder money” RC3, RC4 and ROM6.

In addition, respondent code-named ROM1 via unstructured questionnaire indicated that,

“The correct documenting and record keeping of customer contacts, transactions, and investigations are necessary for effective due diligence. These records reflect the institution's attempts to comply with regulatory obligations and to prevent money laundering” ROM1.

In relation, respondent code-named RCM9 via unstructured questionnaire emphasized that,

“Financial institutions have a duty to alert the appropriate authorities about any suspicious behavior or transactions. Due diligence ensures that organizations uphold this duty, allowing law enforcement organizations to look into the situation and take the necessary measures” RCM9.

Effective due diligence requires ongoing effort. It entails ongoing risk assessment monitoring and updating in response to shifting conditions. The continual assessment and management of money laundering threats is made possible by this proactive approach.

Financial institutions can reduce the risks of money laundering, improve their capacity to spot suspicious activity, and contribute to the overall integrity and security of the financial system by putting in place rigorous due diligence measures. Additionally, it helps to develop an institution-wide compliance and accountability culture.

5.1.4.4 Problems financial institutions encounter while carrying out due diligence

The current study further sought to dig deeper by identifying the challenges financial institutions encounter when executing due diligence. The analyzed data indicates that, when doing due diligence to stop money laundering, financial institutions and other organizations face a number of obstacles. These difficulties are brought on by legislative complications, technological constraints, the evolution of money laundering techniques, and budget limitations. For instance, when interviewed, respondent code-named RBM1 mentioned that,

“We find it difficult to manage the complicated web of compliance standards due to the different AML laws and regulations that apply in different jurisdictions” RBM1.

In relation, respondent code-named RCT1 via unstructured interviews had this to say,

“Automated transaction monitoring systems have a great potential for producing erroneous positive results, marking valid transactions as suspicious. This could put a load on resources and draw attention away from really questionable activity” RCT1.

Similarly when interviewed, respondent code-named RBM2 noted that,

“In-depth due diligence procedures, particularly for high-risk clients, may cause delays in transactions and onboarding, giving clients a less than ideal experience” RBM2.

Further still, when interviewed, respondent code-named RBM3 highlighted that,

“Money launderers are constantly changing their techniques to take advantage of weaknesses. Financial institutions therefore need to stay on top of new dangers, such as those brought on by modern technology and online distribution platforms. To conceal the source of funds, criminals employ complex corporate structures and offshore accounts. These constructions require a lot of work to unravel” RBM3.

Furthermore, when interviewed, respondent code-named RSP1 mentioned that,

“Collaboration with other institutions, regulatory authorities, and law enforcement organisations is frequently necessary for effective due diligence. However, due to legal, jurisdictional, and competitive issues, communicating and exchanging information can be difficult” RSP1.

A comprehensive and interdisciplinary strategy that includes technological improvements, ongoing training, regulatory alignment, and a dedication to encouraging a compliance culture inside financial institutions and organisations is needed to overcome

these issues.

5.1.4.5 The impact of technology on the practice of conducting due diligence in the battle against money laundering?

According to the analyzed data, the way due diligence is carried out in the battle against money laundering has been considerably changed by technology, especially data analytics and artificial intelligence (AI). These technical developments have improved the anti-money laundering (AML) activities' efficiency, accuracy, and efficacy.

For instance, when interviewed, respondent code-named RCT1 mentioned that,

“My dear, tools for data analytics can swiftly scan enormous volumes of data and find patterns, anomalies, and correlations that might point to shady activity. This makes it easier for financial institutions to spot suspected money laundering operations” RCT1.

In relation when interviewed, respondent code-named RCT2 had this to say,

“By examining numerous data points pertaining to client behaviour, transactions, and interactions, data analytics and AI may produce risk profiles that are more accurate. This makes it easier for institutions to pinpoint consumers who pose a significant risk. In addition, real-time transaction monitoring made possible by technology enables institutions to see suspicious activity as it happens and take fast action to stop money laundering” RCT2.

In addition, when interviewed respondent code-named RCT3 mentioned that,

“Artificial intelligence (AI) algorithms can examine intricate networks of interactions and transactions to uncover hidden interconnections and expose money laundering networks” RCT3.

Although technology has many advantages, it's crucial to remember that its application necessitates careful consideration of data privacy, the moral application of AI, and the possibility of algorithmic bias. Due diligence can be made more successful in preventing money laundering by combining technology and human experience in a potent combination.

5.1.4.6 What impact have international regulatory organisations and standards had on the creation and application of due diligence procedures?

Analyzed data indicates that due diligence procedures have been developed and put into practice to combat money laundering, with the help of international regulatory agencies

and standards, such as the Financial Action Task Force (FATF) recommendations. These standards give nations and financial institutions a uniform framework to adhere to, providing a coordinated and successful strategy to combat money laundering and related financial crimes.

For instance, when interviewed, respondent code-named RBM1 had this to say,

“The truth is, regulatory organizations offer instructions on how to alert the appropriate authorities to questionable activity. These rules must be followed by financial institutions to guarantee accurate and prompt reporting of possibly illegal transactions” RBM1.

In relation, when interviewed, respondent code-named RBM2 observed that,

“To combat money laundering, regulatory norms promote international collaboration and information exchange. To identify and stop international money laundering networks, financial institutions need to work together across borders” RBM2.

Finally, when interviewed, respondent code-named RBM3 emphasized that,

“Regulatory agencies offer guidelines on the necessary training for AML specialists, ensuring that they possess the knowledge and abilities to carry out due diligence” RBM3.

Global regulatory authorities and standards have, in general, laid the groundwork for due diligence procedures by offering a thorough framework that directs financial institutions in their attempts to combat financial crimes including money laundering and terrorism funding.

5.1.4.6 What difficulties do financial institutions encounter in assuring adherence to various national and international anti-money laundering regulations?

The analysed data further indicate that in order to ensure compliance with various domestic and international anti-money laundering (AML) requirements, financial institutions must overcome multiple obstacles. The complexity of regulatory regulations, the dynamic nature of financial crimes, and the requirement to navigate many legal systems across jurisdictions all contribute to these difficulties.

When interviewed, respondent code-named RSP1 had this to say,

“My dear, truth be told, financial firms frequently operate in numerous nations, and AML requirements differ between jurisdictions. It can be difficult to navigate these various and complex regulations while maintaining consistency” RSP1.

In relation, when interviewed, respondent code-named RSP1 mentioned that,

“Mmm...AML laws are not set in stone; they change over time to handle new concerns. Financial institutions must adjust their procedures in response to regulatory changes. Significant financial resources are needed for technology, employee training, monitoring systems, and reporting methods in order to ensure compliance with AML requirements”
RSP2.

Finally, when interviewed, respondent code-named RSP3 highlighted that,

“...Let me tell you, it can be difficult to strike a balance between the requirement for extensive customer due diligence and data protection rules, particularly when transacting internationally. Secondly, automated transaction monitoring systems have a high potential for producing false positives, which necessitate manual inspection and take time away from actual suspicious activity.

Regulators and external auditors are entitled to audit and examine financial institutions. It can be difficult to make sure that all AML procedures pass regulatory inspection.

A complete strategy that includes utilising technology, investing in qualified staff, defining precise policies and processes, working with colleagues in the sector, and keeping a pro-active and adaptable position towards regulatory changes is needed to overcome these problems.

5.1.4.7 How can financial institutions maintain a great client experience while avoiding money laundering?

In relation, the analyzed data indicates that financial institutions must strike a balance between preventing money laundering and upholding a great customer experience. Although effective Anti-Money Laundering (AML) controls are essential to protecting the financial system, a bad user experience can cause unhappiness and even drive away clients.

For instance, when interviewed, respondent code-named RSP1 mentioned that,

“It can be done by Investing more in Know Your Customer (KYC) technologies and digital onboarding procedures that make it simple for customers to provide essential data and finish verification online” RSP1.

In relation, respondent code-named RSP2 via interview emphasized that,

“Customers should be informed of the need for and purpose of AML measures. It helps

Customers to grasp the significance of these procedures ...” RSP2.

Similarly, respondent code-named RSP3 via interviews had this to say,

“It is very possible when financial institutions create user-friendly user interfaces that enable clients to easily connect with the institution's online platforms and complete transactions while adhering to AML regulations” RSP3.

Finally, respondent code-named RSP4 via interviews emphasized that,

“Yeah..., staff should receive training on how to properly communicate with customers with AML procedures, making sure that all explanations are concise and comforting. Reduce the quantity of redundant or repetitive documentation that is required from clients to save needless hassle” RSP3.

Financial institutions may find a balance between preventing money laundering and offering a positive and smooth client experience by integrating technology, effective communication, personalised services, and a customer-centric strategy.

5.1.4.8 How the cooperation among financial institutions, regulatory organisations, and law enforcement organisations improve the effectiveness of due diligence in preventing money laundering?

The analysed data indicates that the effectiveness of due diligence on money laundering prevention is enhanced through collaboration between financial institutions, regulatory organisations, and law enforcement agencies. This cooperation creates a thorough ecosystem that makes anti-money laundering (AML) efforts for detection, prevention, investigation, and enforcement more successful.

In relation, when interviewed, respondent code-named RL1 had this to say,

“My dear, law enforcement organisations have the power and means to carry out exhaustive investigations. When financial institutions disclose pertinent data, these organisations are better able to track the movement of illegal funds and break up money laundering networks” RL1.

Similarly, when interviewed, respondent code-named RL2 emphasized that,

“Collaborations minimise the use of resources and prevent duplication of effort. Law enforcement authorities can concentrate on detecting and prosecuting money launderers while financial institutions concentrate on adhering to AML regulations” RL2.

Finally, when interviewed, respondent code-named RL3 stressed that,

“Stakeholder cooperation aids regulatory agencies and policymakers in comprehending the difficulties faced by financial institutions. This knowledge can help create more useful rules that strike a balance between compliance and operational needs” RL3.

Financial institutions, regulatory organisations, and law enforcement organisations work together to deter money laundering operations. When these organisations cooperate, there is a greater chance that criminals will be caught and prosecuted. Transnational money laundering occurs frequently. Collaboration among jurisdictions improves transnational information sharing, which makes it more difficult for criminals to take advantage of regulatory gaps.

5.2.1 Objective Two: To investigate how client due diligence affects money laundering in selected financial institutions in Uganda

Under objective two, the study sought to have an in-depth understanding of the role of legislation in creating a legal framework for combating money laundering. The analyzed data indicates that legislation plays a pivotal role of providing rules, regulations, enforcement mechanisms, prosecution procedures, and punitive measures. For instance, when interviewed, respondent code-named RL1 had this to say’

“By providing the appropriate rules, regulations, and enforcement mechanisms to effectively identify, prohibit, and prosecute money laundering operations, legislation plays a crucial role in developing a legal framework to combat the practice” RL1.

In relation, when interviewed, respondent code-named RL2 disclosed that,

“Indeed, legislation identifies the fundamental crimes that produce illicit revenues, including drug trafficking, corruption, fraud, and others. This makes sure that both the primary offenses and money laundering itself are treated as crimes” RL2.

In addition, when interviewed, respondent code-named RL3 mentioned that,

“Laws provide guidelines for recognizing and comprehending the backgrounds, purposes, and behaviors of clients, assisting in the detection of high-risk individuals and business dealings. Let me tell you, Lawmakers have given authorities the authority to seize and confiscate properties and monies obtained through money laundering operations, robbing offenders of their unjustly obtained wealth.” RL3.

Overall, a nation's attempts to combat money laundering are supported by its legal system.

It gives authorities the authority to take action against individuals engaged in money laundering activities, establishes expectations for various parties, and offers a clear legal foundation.

5.2.2 Central pieces of legislation for Uganda's efforts to combat AML

In relation, the current study under objective number two further sought to establish the legislative measures that are central in the fight against money laundering. The analyzed data pinpoint the anti-money laundering Act, 2013, the terrorism Act, 2015 as amended, the Financial Institutions Act, 2004, the Proceeds of Crime Act, 2009, the Mutual Legal Assistance (Criminal Matters) Act, 2006, the Counter-Terrorism Act, 2002, the Tax Procedures Code Act, 2014, The Companies Act, 2012, the Anti-Corruption Act, 2009, and the Non-Governmental Organizations Act, 2016.

Regarding the anti-money laundering Act, 2013, and the terrorism Act, 2015, when interviewed, respondent code-named RL1 had this to say,

“The Anti-Money Laundering Act, 2013 is the basis for AML initiatives in Uganda. Money laundering is made illegal, and procedures are put in place to stop and stop it as well as terrorist financing. The act specifies requirements for reporting companies, non-financial enterprises and professions, and financial institutions” RL1.

Regarding the Terrorism (Amendment) Act, 2015, when interviewed, respondent code-named RL2 further explained that,

“The law incorporates measures pertaining to terrorist financing activities. In order to bring Uganda's legislation into compliance with international norms, it defines steps to avoid, detect, and report transactions linked to financing terrorism” RL2.

Further still, when interviewed, respondent code-named RL2 highlighted that,

“The activities of financial institutions, including banks and non-bank financial institutions, are governed by the Financial Institutions Act, 2004. My friend, the law has rules for retaining records, disclosing questionable transactions, and requiring customers to exercise due diligence” RL3

The combination of these legislative changes provides Uganda's AML activities with a solid legal base. They specify reporting requirements, create due diligence standards for financial institutions, and give authorities the legal means to look into and pursue money laundering offences. They also define money laundering as a criminal offence.

Additionally, to strengthen international collaboration in the fight against money laundering, Uganda's legal system complies with international norms, particularly those established by the Financial Action Task Force (FATF).

5.2.3 What are some instances of international pacts or treaties designed to stop money laundering?

The study under objective number two further sought to establish whether there're international agreements that are in place to combat money-laundering. The analyzed data for the current study discovered international agreements such as United Nations Convention against Transnational Organized Crime (UNTOC) - Palermo Convention, United Nations Convention against Corruption (UNCAC), African Union Convention on Preventing and Combating Corruption.

Regarding the United Nations Convention against Transnational Organized Crime (UNTOC) agreement, when interviewed, respondent code-named RL1 had this to say,

“Well, the agreement, is also referred to as the Palermo Convention. It portrays the procedures that handle many types of organized crime, including money laundering...”

RL1

In relation, when interviewed, respondent code-named RL2 mentioned that,

“Financial Action Task Force (FATF) establishes global rules and guidelines for preventing money laundering and terrorist financing, despite the fact that it is not a convention per se. These suggestions provide as a guide for nations looking to improve their AML/CFT regimes” RL2.

Further still, when interviewed, respondent code-named RL3 particularly disclosed the,

“African Union Convention on Preventing and Combating Corruption. My dear, the treaty covers measures relating to money laundering as one of the forms of corrupt actions and seeks to prevent and combat corruption in Africa” RL3.

By encouraging international collaboration, creating uniform standards, and simplifying the exchange of information, several international agreements and conventions seek to combat money laundering. These agreements are essential to developing a united international strategy to combat money laundering and other associated financial crimes. By encouraging cooperation, creating uniform standards, and allowing the sharing of knowledge and skills between nations, these international agreements and conventions aid

in the global fight against money laundering.

5.2.4 How legislation helps financial institutions properly identify, evaluate, and reduce money laundering risks

The study further under objective number aimed at establishing how legislation's encourage financial institutions to identify money laundering risks. The analyzed data indicates that legislation encourages financial institutions to identify, assess, and mitigate money laundering by highlighting specifications for clients, encouraging financial institutions to keep accurate records, and to cooperate with law enforcement. For instance, when interviewed, respondent code-named RL1 emphasized that,

“Financial institutions are required by law to perform increased due diligence on high-risk clients, such as politically exposed persons (PEPs) and clients from high-risk areas. In order to avoid the use of shell corporations for money laundering, legislation frequently requires financial institutions to identify and confirm the beneficial owners of corporate entities and legal agreements” RL1.

In relation, when interviewed, respondent code-named RL2 added on to say that,

“Financial institutions are required by law to set up internal controls, policies, and procedures to stop money laundering. Well, financial organizations have a structured framework in place to handle AML threats” RL2.

In addition, when interviewed, respondent code-named RL3 emphasized that,

“Legislation guarantees that financial institutions take proactive actions to identify, assess, and reduce money laundering by setting explicit rules, expectations, and consequences” RL3.

By providing explicit legal requirements, standards, and penalties, legislation motivates financial institutions to adequately identify, assess, and reduce money laundering threats. The purpose of this regulatory framework is to guarantee that financial institutions have effective anti-money laundering (AML) and counter-terrorist financing (CTF) programmes in place.

Legislation guarantees that financial institutions take proactive actions to identify, assess, and effectively manage money laundering threats by setting clear rules, expectations, and consequences. This helps to maintain the overall integrity of the financial system.

5.2.5 How do AML laws require banking firms to implement Customer Due

Diligence (CDD) procedures?

Still under objective number two, the study further sought to establish how legislations mandate the implementation of due diligence by financial institutions. The analysed data indicates that legislation mandate financial institutions to determine and confirm the beneficial owners of the legal entities, conduct due diligence on high-risk clients, monitor customer transactions, submit Suspicious Activity Reports (SARs), to keep records of customer information, and transaction histories.

When interviewed, respondent code-named RL1 specifically mentioned that,

“...Financial institutions are required by AML legislation to determine and confirm the beneficial owners of the legal entities that are their clients. By doing this, transparency is guaranteed and money laundering using shell corporations is avoided. Financial institutions are further required by the law to continuously monitor customer transactions and activity. This aids in spotting anomalous or dubious behavioral patterns that might point to money laundering.” RL1.

In relation, when interviewed respondent code-named RL2 had this to say,

“Oh know, financial institutions are required by law to implement Customer Due Diligence (CDD) processes to ensure that they correctly identify, confirm, and comprehend their customers in order to lower the risk of money laundering, terrorist financing, and other illegal activities. AML (Anti-Money Laundering) laws direct and mandate this implementation. My dear, the law also requires financial institutions to keep records of customer information, transaction histories, and the outcomes of due diligence procedures. These documents support audits and inquiries.” RL2

Similarly, when interviewed, respondent code-named RL3 emphasized that,

Financial institutions may be required under AML rules to perform increased due diligence on high-risk clients, including politically exposed persons (PEPs), high-net-worth individuals, and clients from high-risk jurisdictions. The law also, Financial institutions to submit Suspicious Activity Reports (SARs) when they discover transactions or activity that seem odd or suspicious. SARs are filed with the appropriate government agencies, frequently the Financial Intelligence Unit (FIU)” RL3.

Financial institutions must adhere to various rules and principles set forth by AML laws while executing Customer Due Diligence procedures. These steps are necessary to stop

money laundering, the financing of terrorism, and other financial crimes within the international financial system.

5.2.6 Institutions that breach their anti-money laundering requirements in Uganda may face sanctions or penalties specified in AML legislation?

In relation, under objective two, the study further sought to establish the penalties that awaits financial institutions in case they don't comply with anti-money laundering laws. The analyzed data identified financial penalties, revocation licensees suspended, fines, and imprisonment as some of the sanctions.

When interviewed, respondent code-named RL1 emphasized that,

“My dear, financial institutions that violate their AML obligations may be subject to financial penalties. The severity of the infringement, the size of the institution, and the financial gain from the non-compliance can all affect the fines' amounts” RL1.

In addition, when interviewed, respondent code-named RL2 had this to say,

“The laws are clear, any financial institutions that persistently violate AML laws may have their licenses suspended or revoked by regulatory authorities. Serious AML infractions may result in criminal charges. Fines, imprisonment for those who are responsible, or both may follow” RL2.

Similarly, when interviewed, respondent code-named RL3 mentioned that,

“Hehee..., the law provides that, financial institution directors, officials, and other accountable personnel may be held personally liable for AML violations, which could result in fines, penalties, and significant limitations on their future participation in the sector” RL3.

5.3.1 Objective Three: To identify the preventive measures of combating money laundering in financial institutions in Uganda.

What are the main difficulties that financial institutions encounter when putting into practice anti-money laundering (AML) policies?

Under objective number two, the current study further aimed at establishing the challenges financial institutions encounter when putting into practice anti-money laundering policies. The analysed data highlights Complex Regulatory Environment, Rapidly Changing Strategies, client Privacy Issues as the major challenges commercial institutions face while executing anti-money laundering practices.

When interviewed, respondent code-named RBM1 mentioned,

“AML laws can be comprehensive and complicated, and they might differ from one country or region to another. Financial institutions must navigate a complex web of rules to guarantee compliance, which can be time- and resource-consuming to understand” RBM1.

In relation, when interviewed, respondent code-named RBM2 stressed that,

“Money launderers are always coming up with innovative and clever new strategies. Continuous AML system and strategy adaption is required to stay abreast of these shifting approaches” RBM2.

Lastly, when interviewed, respondent code-named RBM3 had this to say,

“It might be difficult to strike a balance between client privacy and AML standards. Customer data collection and analysis for AML purposes may give rise to privacy concerns and jeopardize the institution's reputation” RBM3.

5.3.2 How is the risk assessment method used in the development and use of anti-money laundering preventive measures?

A key component of developing and putting into action preventive measures against money laundering is the risk assessment process. Financial institutions and other organizations can identify, comprehend, and prioritise the specific money laundering threats they face with the aid of a risk assessment. Organisations can improve the effectiveness and efficiency of their preventive measures by identifying these risks.

Risk analysis aids in locating weak points in an organization's operations, clientele, goods, and services, as well as its geographic reach. Understanding where money laundering threats are most likely to arise requires this identification.

There are many risk profiles for various entities. Organisations can tailor their preventative actions using a risk assessment to address the particular risks and vulnerabilities they face, ensuring that efforts are concentrated where they are most required.

When interviewed, respondent code-named RBM1 had this to say,

“Risk analysis is a continuous activity. A risk assessment can help guide the optimal allocation of scarce resources. The impact of preventive interventions is maximised by giving high-risk areas more time and resources. An efficient risk assessment enables

organisations to spot developing hazards and modify their preventive measures as money laundering strategies change” RBM1.

In relation, when interviewed, respondent code-named RBM2 emphasized that,

“A risk assessment can help guide the optimal allocation of scarce resources. The impact of preventive interventions is maximised by giving high-risk areas more time and resources. The creation of transaction monitoring systems, which concentrate on identifying odd and potentially suspicious behaviours in line with recognised risks, is guided by a thorough risk assessment” RBM2.

In addition, when interviewed, respondent code-named RBM3 mentioned that,

“The development of policies and procedures that are specifically suited to the risks faced by an organisation is informed by risk assessment. This covers policies for reporting, welcoming new customers, and dealing with shady activity. A risk assessment offers a starting point from which to compare the success of preventive actions. An organisation can determine over time how successfully its actions are reducing recognised hazards” RBM3.

Organisations may deploy resources wisely, improve detection capacities, and fortify their anti-money laundering defence by incorporating a risk-based strategy into AML preventive measures. Organisations may guarantee that their preventive measures are still effective in the face of a constantly changing financial crime landscape by routinely reviewing risks.

5.3.3 What essential factors do businesses look at when recognizing and evaluating money laundering risks?

In addition, the study under objective number three further aimed at establishing the factors that financial institutions put into considerations when evaluating money laundering risks. The analyzed data indicates that financial institutions majorly look at jurisdictions, financial products, organization's awareness and comprehension of money laundering threats, technology and tools used.

Via open-ended questionnaire, respondent code-named ROM1 specifically highlighted

“Organisations assess their exposure to areas or jurisdictions with a high risk of financial crime or money laundering. The practice involves taking into account the nation's AML policy, regulatory setting, and amount of corruption” ROM1.

In relations, via open ended questionnaire, respondent code-named ROM3 emphasized that,

“Different money laundering concerns arise depending on the variety of financial products and services that an organisation provides. High-value or complicated transactions could be more prone to abuse” ROM3.

Similarly, via open-ended questionnaires, respondent code-named ROM6 indicated that,

“Risk assessment heavily relies on the organization's awareness and comprehension of money laundering threats, including employee and management training and education programmes” ROM3.

Organisations take into account a number of critical factors when identifying and evaluating money laundering risks to better understand their vulnerabilities and the potential consequences of money laundering operations. These components offer a thorough understanding of the risks connected to their business operations, clients, goods, and services.

Businesses evaluate the composition of their customer base, taking into account elements including consumer demographics, business kinds, geographic areas, and industries. PEPs or companies operating in high-risk industries are examples of high-risk clients who may need further examination.

By carefully taking into account these essential components, organisations can create targeted preventive actions to efficiently mitigate their money laundering risks and obtain a holistic picture of their risk exposure. Organisations may better focus resources where they are most required and fortify their defences against financial crimes and money laundering using this risk-based strategy.

5.3.4 The significance of customer due diligence (CDD) as a primary preventive measure?

The current study established that a crucial preventive strategy in the struggle against money laundering and other financial crimes is customer due diligence (CDD). The process entails the process of confirming a customer's identity, comprehending their business connections, and determining their potential danger of participating in money laundering or illegal activities.

The analysed data indicates that customer due diligence is paramount when it comes to

identifying and reporting suspicious behaviours, prevent financial organisations from unintentionally cooperating, protects financial institutions reputation, promotes customer confidence.

For instance, via-open ended questionnaires, respondent code-named RCF3 mentioned that,

“Effective CDD reduces the likelihood that criminals will use financial institutions to launder money. Institutions can identify and report suspicious behaviour by confirming customer identities and comprehending their transactions” RCF3.

In relation, via-open ended questionnaire, respondent code-named RCF5 indicated that,

“Strong CDD controls prevent financial organizations from unintentionally cooperating with clients engaged in unethical or criminal activity, reducing reputational risks” RCF5.

Finally, via open-ended questionnaire, respondent code-named RCF10 mentioned that,

“Customers are more likely to feel confident about a financial institution's efforts to safeguard their interests and stop illegal activity if the CDD procedure is well implemented. In addition, Institutions use CDD to get crucial information they need to decide how much due diligence is necessary and how much risk each customer poses” RCF10.

Customer Due Diligence is a key component of AML operations, to sum up. It is a vital instrument for preventing money laundering, terrorist funding, and other financial crimes due to its role in confirming customer identities, assessing risk, spotting suspicious activity, and assuring compliance with rules.

5.3.4 Methods financial institutions employ to efficiently manage their interactions with high-risk clients and stop money laundering?

Regarding the methods financial institutions employ to manage interaction high risk clients , the analysed data indicates that financial institutions adopt a number of tactics that concentrate on monitoring, risk reduction, continuing assessment, and enhanced due diligence (EDD) for purposes of managing high-risk customer relationships and avoid money laundering.

In relation, via-open ended questionnaire, respondent code-named RCF1 emphasized that,

“Financial institutions conduct thorough EDD on clients in high-risk industries,

politically exposed individuals (PEIs), high-net-worth individuals, and other groups. To better comprehend the customer's activities, find out more about their financial sources, professional connections, and transactions” RCF1.

Similarly, via open-ended questionnaire, respondent code-named RCF3 mentioned that,

“Financial institutions normally utilize a risk-based strategy that fits the risk profile of the consumer. They also make sure that high-risk customers are subjected to more thorough scrutiny and monitoring by customising AML measures based on the level of risk” RCF3.

In addition, via open-ended questionnaire, respondent code-named RCF5 reported that,

“Financial institutions put in place sophisticated transaction monitoring tools that can instantly identify unusual or suspicious activity. They also set up alerts for transactions and high-risk clients who break from their usual patterns” RCF3.

Additionally, via open-ended questionnaire, respondent code-named ROM1 emphasized that,

“Financial institutions review high-risk client connections frequently and thoroughly to determine their ongoing risk level and make sure the institution's knowledge of the customer is current” ROM1.

Finally, via open-ended questionnaire, respondent code-named ROM3 mentioned that,

“By educating personnel on ongoing basis about the dangers of money laundering and effective defences, financial institutions can promote an AML awareness culture” ROM3.

Financial institutions can manage high-risk client relationships, reduce the dangers of money laundering, and guarantee AML compliance by combining these tactics. Maintaining lucrative connections while also protecting the integrity of the financial system and preventing financial fraud is crucial.

5.3.6 Advantages of technology and AI in the fight against money laundering.

Analysed data indicates that technology has substantially advanced to support efforts to prevent money laundering. It is evident from the analysed data that technology and AI enable financial institutions to analyse enormous volumes of data, finding trends, and reporting questionable activity, to detect and prevent money laundering.

For instance, when interviewed, respondent code-named RCT1 mentioned that,

“My dear, with technology and AI, financial organisations may now analyse massive

amounts of transaction data in real-time and spot odd trends and abnormalities that might be signs of money laundering” RCT1.

In relation, when interviewed, respondent code-named RCT2 emphasized that,

“Systems that monitor transactions using artificial intelligence (AI) automatically look for anomalous behaviour, such as huge transactions, quick transfers of funds, or changes in transaction patterns. By predicting the possibility that a transaction may be connected to money laundering, machine learning (ML) algorithms allow institutions to concentrate their resources on higher-risk operations” RCT2.

Similarly, when interviewed, respondent code-named RCT3 had this to say,

“With the use of visualisation tools made possible by technology, AML specialists can more rapidly and accurately evaluate complicated data patterns” RCT3.

Finally, when interviewed, respondent code-named RCT4 maintained that,

“Numerous instruments created for fraud detection, such anomaly detection algorithms, can be used to stop money laundering” RCT4.

Organizations can analyse data more quickly, spot suspicious activity more accurately, and put less strain on human resources by utilizing AI and machine learning. It's crucial to remember that these technologies do have drawbacks, such as the possibility of algorithmic bias and the requirement for continual monitoring and adjusting. But when used effectively, technology dramatically improves attempts to prevent money laundering by keeping up with increasingly complex financial crimes.

5.3.7 Practices for ensuring that staff members are knowledgeable about AML initiatives?

The analysed data of the current study indicate that, the success of a financial institution's anti-money laundering (AML) programme depends on making sure that personnel are informed and actively involved in AML initiatives. To this end, staff are trained and oriented on anti-money laundered practices, motivated, equipped with effective communication channels.

When interviewed, respondent code-named RSP1 had this to say,

“No matter their position, employee is exposed to thorough AML training. Money laundering fundamentals, warning signs, reporting requirements, and the institution's AML policies and processes should all be covered in training” RSP1.

In relation, when interviewed, respondent code-named RSP2 mentioned that,

“It is equally important to inform staff members about evolving AML regulations, new hazards, and best practises. Now, for this particular financial institution, refresher training sessions are held frequently to update knowledge and address new developments concerning money laundering” RSP2.

In addition, when interviewed, respondent code-named had this to say,

“We have established an effective channels of communication for AML-related news and updates. We also use meetings, intranet sites, and newsletters to exchange information regarding money laundering” RSP3.

Finally, when interviewed, respondent code-named emphasized that,

“As far as money laundering is concerned, we continually evaluate and improve our training programmes in light of customer feedback, industry best practises, and evolving legal requirements” RSP3.

Financial institutions can develop a knowledgeable and motivated workforce that supports the institution's AML objectives and strengthens its compliance culture by putting these best practises into practise.

5.3.8 How financial institutions work with international partners to improve preventive measures?

The analyzed data of the current study indicates that, a deliberate and coordinated approach is needed to navigate cross-border transactions and work with international partners to improve preventive measures against money laundering. The data further provides that working collaboratively to reduce the dangers of money laundering, financial institutions and organizations must overcome obstacles linked to conflicting rules, cultural differences, and information sharing.

When interviewed, respondent code-named RBM1 mentioned that,

“We make sure that the company's AML programme complies with global norms and guidelines, such as the Financial Action Task Force (FATF) requirements. This offers a standard structure for cooperation. We also establish formal information-sharing agreements with international partners that specify the conditions, boundaries, and privacy of data sharing” RBM1.

Similarly, when interviewed, respondent code-named RBM2 had this to say,

“Actually, we utilize technology to connect AML data and systems with international partners. This makes it possible to share information in real-time and improves the ability to identify and stop international money laundering. Additionally, when sharing consumer information globally, navigate data privacy laws. We make sure all relevant regulations are followed while sharing data” RBM2.

Finally, when interviewed, respondent code-named RBM3 reported that,

“We normally align our reporting requirements with international partners to guarantee that suspicious transactions are reported uniformly across all jurisdictions. We also keep abreast of modifications to global AML legislation and share this information with partners around the world to maintain continued compliance” RBM3.

Organizations can improve their preventive measures against money laundering by developing strong partnerships and collaboration structures that take advantage of the aggregate expertise and resources of international partners. Cross-border AML hazards can be identified, reported, and mitigated more successfully with a coordinated strategy.

5.3.9 Actions organizations adopt to guarantee adherence to altering AML regulations?

The analyzed data of the current study further indicates that a proactive and flexible approach is necessary to ensure compliance with anti-money laundering (AML) legislation that are constantly changing. The data therefore indicate that Organisations regularly update their AML programmes to keep compliant with the most recent legislations.

For instance, when interviewed, respondent code-named RBM1 had this to say,

“We stay informed about changes in AML regulations by routinely checking updates from regulatory bodies, governmental organisations, and international groups like the Financial Action Task Force (FATF)” RBM1.

In relation, when interviewed, respondent code-named RBM2 mentioned that,

“Actually, AML rules and processes are reviewed and updated to reflect new regulatory requirements. We also make it a point that all workers are informed of and comprehend the changes. Indeed, we have a compliance officer or team in charge of keeping track of and putting new AML regulations into effect. The organization's continued compliance with changing requirements is ensured by this position” RBM2.

Finally, when interviewed, respondent code-named mentioned that,

“The issue is, we consult with legal counsel or outside consultants who are knowledgeable about AML legislation frequently to make sure that the organization's procedures comply with the law. Secondly, we conduct routine internal audits and evaluations to examine the efficiency of AML controls in light of changing legal requirements. Decide which areas require improvement and implement the necessary changes” RBM3.

Following these guidelines will help organisations maintain strong and efficient AML programmes in the face of changing AML laws and regulations. Maintaining the integrity of the financial system and reducing the risk of money laundering need constant adaptation and a dedication to compliance.

5.3.10 how do businesses work with FIUs to improve preventive measures?

According to the reviewed documents on anti-money laundering, it is evident that strengthening preventive measures against money laundering and other financial crimes requires collaboration between financial institutions and Financial Intelligence Units (FIUs). The available literature further indicate that Governmental or law enforcement organisations known as FIUs are in charge of gathering, examining, and sharing data about shady financial activity.

The reviewed documents on anti-money laundering further provides that financial institutions are required by law to alert the FIU about suspicious activity. This includes transactions that stand out as strange, seem to serve no discernible economic or legal function, or contradict a customer's profile.

Collaboration between financial institutions and FIUs improves the efficiency of AML initiatives on both sides of the partnership. Together, these organisations can better detect, prevent, and combat financial crimes by utilising each other's knowledge, information, and resources.

CHAPTER SIX: DISCUSSION OF THE FINDINGS

5.0 Introduction

This chapter presents the discussion of the findings

5.1 Objective One: To investigate how client due diligence affects money laundering in selected financial institutions in Uganda.

Regarding how due diligence relates to the process of identifying and preventing money laundering, the current study established that, due diligence relate to the entire process identifying and preventing money laundering by enabling financial institutions to evaluate risks attached to suspected money laundering, identifying act geographical location, transaction patterns, client profile and the nature of business. The finding resonate with the findings of Havennga (2016) who observed that CDD is paramount in establishing the particulars of customers.

For a number of significant reasons, financial institutions should perform customer due diligence (CDD), particularly to reduce the danger of money laundering, terrorist funding, and other illegal financial activity. Know-your-customer (KYC) and anti-money laundering (AML) programmes also depend on CDD, which entails gathering and verifying customer data to confirm a customer's identity and the legitimacy of their transactions.

Overall, performing customer due diligence is essential to a company's risk management strategy and commitment to upholding the integrity of the financial system. Financial institutions can improve their capacity to identify and stop illegal financial activity, safeguard their brand and legal standing, and adhere to rules by putting in place robust CDD practises.

6.1.1 How do criminals often use financial institutions to launder money?

In an effort to conceal the funds' illicit origins and make them seem legitimate, criminals use a number of ways and procedures to launder money through financial institutions. The analyzed data indicates that criminals normally connive with bank staff, split money into small amounts, use front firms and sometimes inflate the value goods and services in order to launder money. This particular findings echoes the findings of Havennga (2016) whose study produced similar results.

The Individuals who can assist money launderers in moving illegal funds through the

financial system are frequently given financial rewards. Employees may be persuaded to help by the promise of obtaining a reward from the money that has been cleaned up.

It's critical to stress that the majority of personnel at financial institutions are honourable people who are committed to abiding by the law and moral guidelines. To identify and stop money laundering operations, financial institutions often have strong anti-money laundering (AML) and know-your-customer (KYC) policies in place. Included in these protocols are employee training, transaction monitoring, reporting of questionable activity, and collaboration with law enforcement. However, instances of employees taking part in money laundering might still happen, therefore organisations must stay attentive in their efforts to stop and catch such behaviour.

6.1.2 Impact of ML on financial systems, economies, and society suffer from

The essential values of openness, honesty, and justice in financial institutions and communities are undercut by money laundering. Beyond financial institutions, it has an impact on various facets of economies and society. Governments, financial institutions, regulatory agencies, and international organisations must work together to combat money laundering by putting into place efficient preventive measures and fostering a safe and transparent financial environment. The finding is in conformity with the findings of Bacwa (2018) who observed that money laundering can possess serious damages to financial institutions if not handled with care.

It is now evident from the current study that financial institutions may have considerable and long-lasting impacts from money laundering, in regard to their reputation and financial soundness.

Financial institutions must therefore have extensive AML and KYC programmes in place in order to reduce these effects. These programmes include transaction monitoring, customer due diligence, and reporting questionable activity to the appropriate authorities. Institutions are also urged to educate staff members about compliance and ethics standards and to keep up with changing money laundering methods and legal requirements. Financial institutions must take money laundering prevention seriously because doing so can have major repercussions for them.

6.1.3 The efficacy of due diligence practices aid in the fight against money laundering?

The study further sought to establish the effectiveness of due diligence procedures in the fight against money laundering. The findings of the current study indicate that due diligence is crucial in the identification, prevention and deterrence of money laundering activities. The finding of the contemporary study correlate with the findings of Palmer (2022) who emphasized that identifying CDD play a cardinal goal in comprehending and the identification of money laundering.

The process of effective due diligence requires ongoing effort. It entails ongoing risk assessment monitoring and updating in response to shifting conditions. The continual assessment and management of money laundering threats is made possible by this proactive approach.

Financial institutions can reduce the risks of money laundering, improve their capacity to spot suspicious activity, and contribute to the overall integrity and security of the financial system by putting in place rigorous due diligence measures. Additionally, it helps to develop an institution-wide compliance and accountability culture.

6.1.4 The impact of technology on due diligence in the battle against money laundering?

According to the analyzed data, the way due diligence is carried out in the battle against money laundering has been considerably changed by technology, especially data analytics and artificial intelligence (AI). These technical developments have improved the anti-money laundering (AML) activities' efficiency, accuracy, and efficacy. The finding is in conformity with the findings of Excell (2019) who argued that although technology has many advantages, it's crucial to remember that its application necessitates careful consideration of data privacy, the moral application of AI, and the possibility of algorithmic bias. Due diligence can be made more successful in preventing money laundering by combining technology and human experience in a potent combination.

6.2.1 Objective Two: To analyse how legislation influences money laundering in selected financial institutions in Uganda

Under objective two, the study sought to have an in-depth understanding of the role of legislation in creating a legal framework for combating money laundering. The analyzed data indicates that legislation plays a pivotal role of providing rules, regulations, enforcement mechanisms, prosecution procedures, and punitive measures. The finding of

the current study validates the findings of Morse (2016) who emphasized that establishing a legal structure for discovering, stopping, and penalizing money laundering operations, legislation plays a key role in reducing the practice. To sum up it all, Governments and insurance companies are empowered to counteract this illegal practice by taking particular action as a result of effective anti-money laundering, or AML, legislation and regulations. In general, law is a crucial part of the all-encompassing strategy required to effectively combat money laundering. It gives regulators and financial institutions the legal foundation to collaborate in identifying, stopping, and prosecuting money laundering operations, eventually assisting in preserving the integrity of the banking industry and society at large.

6.2.3 The international pacts or treaties designed to stop money laundering

The study under objective number two further sought to establish whether there're international agreements that are in place to combat money-laundering. The analyzed data for the current study discovered international agreements such as United Nations Convention against Transnational Organized Crime (UNTOC) - Palermo Convention, United Nations Convention against Corruption (UNCAC), African Union Convention on Preventing and Combating Corruption.

By encouraging international collaboration, creating uniform standards, and simplifying the exchange of information, several international agreements and conventions seek to combat money laundering. These agreements are essential to developing a united international strategy to combat money laundering and other associated financial crimes. By encouraging cooperation, creating uniform standards, and allowing the sharing of knowledge and skills between nations, these international agreements and conventions aid in the global fight against money laundering.

6.2.4 The influence of legislation on financial institutions

The study further under objective number aimed at establishing how legislation's encourage financial institutions to identify money laundering risks. The analyzed data indicates that legislation encourages financial institutions to identify, assess, and mitigate money laundering by highlighting specifications for clients, encouraging financial institutions to keep accurate records, and to cooperate with law enforcement. The finding validates the findings of Mugarura (2020) who observed that legislative provisions more

so on asset recovery and confiscation aid in both punishment and deterrence of money-laundering.

By providing explicit legal requirements, standards, and penalties, legislation motivates financial institutions to adequately identify, assess, and reduce money laundering threats. The purpose of this regulatory framework is to guarantee that financial institutions have effective anti-money laundering (AML) and counter-terrorist financing (CTF) programmes in place.

Legislation guarantees that financial institutions take proactive actions to identify, assess, and effectively manage money laundering threats by setting clear rules, expectations, and consequences. This helps to maintain the overall integrity of the financial system.

6.2.5 Obligations of banking firms to implement Customer Due Diligence (CDD)

Still under objective number two, the study further sought to establish how legislations mandate the implementation of due diligence by financial institutions. The analysed data indicates that legislation mandate financial institutions to determine and confirm the beneficial owners of the legal entities, conduct due diligence on high-risk clients, monitor customer transactions, submit Suspicious Activity Reports (SARs), to keep records of customer information, and transaction histories.

Financial institutions must adhere to various rules and principles set forth by AML laws while executing Customer Due Diligence procedures. These steps are necessary to stop money laundering, the financing of terrorism, and other financial crimes within the international financial system.

2.2.6 Penalties for breach of anti-money laundering requirements in Uganda

In relation, under objective two, the study further sought to establish the penalties that awaits financial institutions in case they don't comply with anti-money laundering laws. The analyzed data identified financial penalties, revocation licensees suspended, fines, and imprisonment as some of the sanctions.

6.3.0 Objective Three: To identify the preventive measures of combating money laundering in financial institutions in Uganda.

Difficulties financial institutions encounter when putting into practice anti-money laundering (AML) policies?

Under objective number two, the current study further aimed at establishing the challenges

financial institutions encounter when putting into practice anti-money laundering policies. The analysed data highlights Complex Regulatory Environment, Rapidly Changing Strategies, client Privacy Issues as the major challenges commercial institutions face while executing anti-money laundering practices.

6.3.1 Application of the risk assessment method?

The analysed data of the current study indicate that there are many risk profiles for various entities. Organisations can tailor their preventative actions using a risk assessment to address the particular risks and vulnerabilities they face, ensuring that efforts are concentrated where they are most required.

A key component of developing and putting into action preventive measures against money laundering is the risk assessment process. Financial institutions and other organizations can identify, comprehend, and prioritise the specific money laundering threats they face with the aid of a risk assessment. Organisations can improve the effectiveness and efficiency of their preventive measures by identifying these risks.

Risk analysis aids in locating weak points in an organization's operations, clientele, goods, and services, as well as its geographic reach. Understanding where money laundering threats are most likely to arise requires this identification.

Organisations may deploy resources wisely, improve detection capacities, and fortify their anti-money laundering defence by incorporating a risk-based strategy into AML preventive measures. Organisations may guarantee that their preventive measures are still effective in the face of a constantly changing financial crime landscape by routinely reviewing risks.

6.3.2 Factors that institutions look at when evaluating money laundering risks?

In addition, the study under objective number three further aimed at establishing the factors that financial institutions put into considerations when evaluating money laundering risks. The analyzed data indicates that financial institutions majorly look at jurisdictions, financial products, organization's awareness and comprehension of money laundering threats, technology and tools used.

Organizations take into account a number of critical factors when identifying and evaluating money laundering risks to better understand their vulnerabilities and the potential consequences of money laundering operations. These components offer a

thorough understanding of the risks connected to their business operations, clients, goods, and services.

Businesses evaluate the composition of their customer base, taking into account elements including consumer demographics, business kinds, geographic areas, and industries. PEPs or companies operating in high-risk industries are examples of high-risk clients who may need further examination.

By carefully taking into account these essential components, organisations can create targeted preventive actions to efficiently mitigate their money laundering risks and obtain a holistic picture of their risk exposure. Organisations may better focus resources where they are most required and fortify their defences against financial crimes and money laundering using this risk-based strategy.

6.3.3 The significance of customer due diligence (CDD) as a primary preventive measure?

The current study established that a crucial preventive strategy in the struggle against money laundering and other financial crimes is customer due diligence (CDD). The process entails the process of confirming a customer's identity, comprehending their business connections, and determining their potential danger of participating in money laundering or illegal activities.

The analysed data indicates that customer due diligence is paramount when it comes to identifying and reporting suspicious behaviours, prevent financial organisations from unintentionally cooperating, protects financial institutions reputation, promotes customer confidence.

Customer Due Diligence is a key component of AML operations, to sum up. It is a vital instrument for preventing money laundering, terrorist funding, and other financial crimes due to its role in confirming customer identities, assessing risk, spotting suspicious activity, and assuring compliance with rules.

6.3.4 Methods financial institutions employ to manage high-risk clients and stop money laundering?

Regarding the methods financial institutions employ to manage interaction high risk clients , the analysed data indicates that financial institutions adopt a number of tactics that concentrate on monitoring, risk reduction, continuing assessment, and enhanced due

diligence (EDD) for purposes of managing high-risk customer relationships and avoid money laundering.

Financial institutions can manage high-risk client relationships, reduce the dangers of money laundering, and guarantee AML compliance by combining these tactics. Maintaining lucrative connections while also protecting the integrity of the financial system and preventing financial fraud is crucial.

6.3.5 Advantages of technology and AI in the fight against money laundering.

Analyzed data indicates that technology has substantially advanced to support efforts to prevent money laundering. It is evident from the analysed data that technology and AI enable financial institutions to analyse enormous volumes of data, finding trends, and reporting questionable activity, to detect and prevent money laundering.

Organizations can analyse data more quickly, spot suspicious activity more accurately, and put less strain on human resources by utilizing AI and machine learning. It's crucial to remember that these technologies do have drawbacks, such as the possibility of algorithmic bias and the requirement for continual monitoring and adjusting. But when used effectively, technology dramatically improves attempts to prevent money laundering by keeping up with increasingly complex financial crimes.

6.3.6 Practices for ensuring that staff members are knowledgeable about AML initiatives?

The analysed data of the current study indicate that, the success of a financial institution's anti-money laundering (AML) programme depends on making sure that personnel are informed and actively involved in AML initiatives. To this end, staff are trained and oriented on anti-money laundered practices, motivated, equipped with effective communication channels.

Financial institutions can develop a knowledgeable and motivated workforce that supports the institution's AML objectives and strengthens its compliance culture by putting these best practises into practise.

6.3.7 How financial institutions work with international partners to improve preventive measures?

The analyzed data of the current study indicates that, a deliberate and coordinated approach is needed to navigate cross-border transactions and work with international

partners to improve preventive measures against money laundering. The data further provides that working collaboratively to reduce the dangers of money laundering, financial institutions and organizations must overcome obstacles linked to conflicting rules, cultural differences, and information sharing.

Organizations can improve their preventive measures against money laundering by developing strong partnerships and collaboration structures that take advantage of the aggregate expertise and resources of international partners. Cross-border AML hazards can be identified, reported, and mitigated more successfully with a coordinated strategy.

6.3.8 Actions organizations adopt to guarantee adherence to altering AML regulations?

The analyzed data of the current study further indicates that a proactive and flexible approach is necessary to ensure compliance with anti-money laundering (AML) legislation that are constantly changing. The data therefore indicate that Organisations regularly update their AML programmes to keep compliant with the most recent legislations.

Following these guidelines will help organisations maintain strong and efficient AML programmes in the face of changing AML laws and regulations. Maintaining the integrity of the financial system and reducing the risk of money laundering need constant adaptation and a dedication to compliance.

6.3.9 How do businesses work with FIUs to improve preventive measures?

According to the reviewed documents on anti-money laundering, it is evident that strengthening preventive measures against money laundering and other financial crimes requires collaboration between financial institutions and Financial Intelligence Units (FIUs). The available literature further indicate that Governmental or law enforcement organisations known as FIUs are in charge of gathering, examining, and sharing data about shady financial activity.

The reviewed documents on anti-money laundering further provides that financial institutions are required by law to alert the FIU about suspicious activity. This includes transactions that stand out as strange, seem to serve no discernible economic or legal function, or contradict a customer's profile.

Collaboration between financial institutions and FIUs improves the efficiency of AML

initiatives on both sides of the partnership. Together, these organisations can better detect, prevent, and combat financial crimes by utilising each other's knowledge, information, and resources.

6.3.10 The anti-money laundering preventive measures

The study further aimed at establishing the anti-money laundering preventives measures in adopted by financial institutions in Uganda. The current study established Due Diligence for Clients (CDD), Know About Your Client (KYC), Education and Training, and Risk-based strategy as the key anti-money laundering measures financial institutions base on to curb currencies laundering. The findings validates the findings of Breslow & Maxwell (2021) who reported that anti-money laundering, also known as AML, measures are a collection of policies, procedures, and methods designed to stop and identify instances of money laundering. The laundering of funds is a technique by which people or organisations try to cover up the sources of money that has been gained unlawfully. To keep the financial system's integrity and stop criminal organisations from profiting from their unlawful activities, AML safeguards are crucial.

Compliance with regulations, good internal policies and processes, continual oversight, and a steadfast dedication to ethical business practises are all necessary components of effective AML safeguards. To make the environment inhospitable for the laundering of funds and terrorist funding, financial institutions, companies, and governments must cooperate.

6.4.0 Summary of the findings, Conclusion, and Recommendations

6.4.1 Objective One: To investigate how client due diligence affects money laundering in selected financial institutions in Uganda.

The current study established that, due diligence relate to the entire process identifying and preventing money laundering by enabling financial institutions to evaluate risks attached to suspected money laundering, identifying act geographical location, transaction patterns, client profile and the nature of business.

Due diligence is a continual procedure that involves monitoring client activity and revising risk assessments as conditions change. Ongoing surveillance makes it easier to spot changing money laundering trends.

6.4.2 How do criminals often use financial institutions to launder money?

The analyzed data indicates that criminals normally connive with bank staff, split money into small amounts, use from firms and sometimes inflate the value goods and services in order to launder money.

6.4.3 How can financial systems, economies, and even society at large suffer from money laundering?

The essential values of openness, honesty, and justice in financial institutions and communities are undercut by money laundering. Therefore, Governments, financial institutions, regulatory agencies, and international organisations must work together to combat money laundering by putting into place efficient preventive measures and fostering a safe and transparent financial environment.

6.4.4 How does the application of efficient due diligence practices aid in the fight against money laundering?

The findings of the current study indicate that due diligence is crucial in the identification, prevention and deterrence of money laundering activities. However, effective due diligence requires ongoing effort. The continual assessment and management of money laundering threats is made possible by this proactive approach.

Additionally, Financial institutions can reduce the risks of money laundering, improve their capacity to spot suspicious activity, and contribute to the overall integrity and security of the financial system by putting in place rigorous due diligence measures.

6.4.5 What problems do financial institutions and other organisations most frequently encounter while carrying out due diligence to stop money laundering?

The analyzed data indicates that, when doing due diligence to stop money laundering, financial institutions and other organizations face a number of obstacles brought on by legislative complications, technological constraints, the evolution of money laundering techniques, and budget limitations.

6.4.6 The impact of technology on the practice of conducting due diligence in the battle against money laundering?

Although technology has many advantages, it's crucial to remember that its application necessitates careful consideration of data privacy, the moral application of AI, and the possibility of algorithmic bias.

6.4.7 What impact have international regulatory organizations and standards had

on the creation and application of due diligence procedures?

Global regulatory authorities in general, laid the groundwork for due diligence procedures by offering a thorough framework that directs financial institutions in their attempts to combat financial crimes including money laundering and terrorism funding.

6.4.6 What difficulties do financial institutions encounter in assuring adherence to various national and international anti-money laundering regulations?

A complete strategy that includes utilising technology, investing in qualified staff, defining precise policies and processes, working with colleagues in the sector, and keeping a pro-active and adaptable position towards regulatory changes is needed to overcome these problems.

6.4.7 How can financial institutions maintain a great client experience while avoiding money laundering?

Financial institutions may find a balance between preventing money laundering and offering a positive and smooth client experience by integrating technology, effective communication, personalized services, and a customer-centric strategy.

6.4.8 Efficacy of cooperation among financial institutions, regulatory organisations, and law enforcement organizations in preventing money laundering?

Collaboration among jurisdictions improves transnational information sharing, which makes it more difficult for criminals to take advantage of regulatory gaps.

6.5.0 Objective Two: To analyze how legislation influences money laundering in selected financial institutions in Uganda

Overall, a nation's attempts to combat money laundering are supported by its legal system. It gives authorities the authority to take action against individuals engaged in money laundering activities, establishes expectations for various parties, and offers a clear legal foundation.

6.5.1 Central pieces of legislation for Uganda's efforts to combat AML

Legislation specify reporting requirements, create due diligence standards for financial institutions, and give authorities the legal means to look into and pursue money laundering offences. They also define money laundering as a criminal offence. Additionally, to strengthen international collaboration in the fight against money laundering, Uganda's legal system complies with international norms, particularly those established by the

Financial Action Task Force (FATF).

6.5.2 What are some instances of international pacts or treaties designed to stop money laundering?

International collaboration, creation of uniform standards, and simplifying the exchange of information, several international agreements and conventions seek to combat money laundering. These agreements are essential to developing a united international strategy to combat money laundering and other associated financial crimes.

6.5.3 How legislation helps financial institutions properly identify, evaluate, and reduce money laundering risks

The purpose of this regulatory framework is to guarantee that financial institutions have effective anti-money laundering (AML) and counter-terrorist financing (CTF) programmes in place. Legislation guarantees that financial institutions take proactive actions to identify, assess, and effectively manage money laundering threats by setting clear rules, expectations, and consequences. This helps to maintain the overall integrity of the financial system.

6.5.4 How do AML laws require banking firms to implement Customer Due Diligence (CDD) procedures?

Financial institutions must adhere to various rules and principles set forth by AML laws while executing Customer Due Diligence procedures. These steps are necessary to stop money laundering, the financing of terrorism, and other financial crimes within the international financial system.

6.5.5 Institutions that breach their anti-money laundering requirements in Uganda may face sanctions or penalties specified in AML legislation?

The analyzed data identified financial penalties, revocation of licensees, fines, and imprisonment as some of the sanctions.

6.6.0 Objective Three: To identify the preventive measures of combating money laundering in financial institutions in Uganda.

6.6.1 What are the main difficulties that financial institutions encounter when putting into practice anti-money laundering (AML) policies?

The analysed data highlights Complex Regulatory Environment, Rapidly Changing Strategies, client Privacy Issues as the major challenges commercial institutions face

while executing anti-money laundering practices.

6.6.2 How is the risk assessment method used in the development and use of anti-money laundering preventive measures?

Organizations deploy resources wisely, improve detection capacities, and fortify their anti-money laundering defense by incorporating a risk-based strategy into AML preventive measures. Organisations may guarantee that their preventive measures are still effective in the face of a constantly changing financial crime landscape by routinely reviewing risks.

6.6.3 What essential factors do businesses look at when recognizing and evaluating money laundering risks?

By carefully taking into account the essential components, organisations can create targeted preventive actions to efficiently mitigate their money laundering risks and obtain a holistic picture of their risk exposure. Organisations may better focus resources where they are most required and fortify their defences against financial crimes and money laundering using this risk-based strategy.

6.6.4 The significance of customer due diligence (CDD) as a primary preventive measure?

Customer Due Diligence is a vital instrument for preventing money laundering, terrorist funding, and other financial crimes due to its role in confirming customer identities, assessing risk, spotting suspicious activity, and assuring compliance with rules.

6.6.4 Methods financial institutions employ to efficiently manage their interactions with high-risk clients and stop money laundering?

Financial institutions manage high-risk client relationships, reduce the dangers of money laundering, and guarantee AML compliance by combining these tactics. Maintaining lucrative connections while also protecting the integrity of the financial system and preventing financial fraud is crucial.

6.6.5 Advantages of technology and AI in the fight against money laundering.

Organizations analyses data more quickly, spot suspicious activity more accurately, and put less strain on human resources by utilizing AI and machine learning. However, technologies have drawbacks, such as the possibility of algorithmic bias and the requirement for continual monitoring and adjusting. But when used effectively,

technology dramatically improves attempts to prevent money laundering by keeping up with increasingly complex financial crimes.

6.6.6 Practices for ensuring that staff members are knowledgeable about AML initiatives?

Financial institutions develop knowledgeable and motivated workforce that supports the institution's AML objectives and strengthens its compliance culture by putting these best practices into practice.

6.6.7 How financial institutions work with international partners to improve preventive measures?

Organizations improve their preventive measures against money laundering by developing strong partnerships and collaboration structures that take advantage of the aggregate expertise and resources of international partners. Cross-border AML hazards can be identified, reported, and mitigated more successfully with a coordinated strategy.

6.6.7 Actions organizations adopt to guarantee adherence to altering AML regulations?

The guidelines help organisations to maintain strong and efficient AML programmes in the face of changing AML laws and regulations. Maintaining the integrity of the financial system and reducing the risk of money laundering need constant adaptation and a dedication to compliance.

6.6.8 How do businesses work with FIUs to improve preventive measures?

The collaboration between financial institutions and FIUs improves the efficiency of AML initiatives on both sides of the partnership. Together, these organizations can better detect, prevent, and combat financial crimes by utilizing each other's knowledge, information, and resources.

6.7 Conclusion:

Regarding objective number one of the study, the current study concludes that customer due diligence aids organizations in better understanding their clients, evaluating risks, and spotting irregularities. In addition to being required by law, compliance with CDD laws is crucial for preserving the integrity of the financial system and preserving public confidence in financial institutions. States, insurance companies, and businesses can combat money laundering and safeguard the integrity of the financial system by putting these preventive measures into place and continuously improving them, which will ultimately lead to a safer and more open global economy. At local and foreign levels, collaboration and monitoring are necessary to prevent money laundering.

Regarding the second objective of the study, the current study concludes that, legislation is a key component of the global campaign to stop money laundering. In order to prevent people and organisations from performing money laundering activities, it establishes the legal framework, requires the required compliance procedures, and imposes fines. Authorities and financial institutions may make it more difficult to launder money and safeguard the soundness of the financial system by enforcing AML laws and continuously updating them to reflect emerging threats.

Similarly, regarding the third objective of the study, the current study concludes that anti-money laundering, also known as AML, measures are a collection of policies, procedures, and methods designed to stop and identify instances of money laundering. To keep the financial system's integrity and stop criminal organisations from profiting from their unlawful activities, AML safeguards are crucial. Compliance with regulations, good internal policies and processes, continual oversight, and a steadfast dedication to ethical business practices are all necessary components of effective AML safeguards. To make the environment inhospitable for the laundering of funds and terrorist funding, financial institutions, companies, and governments must cooperate.

6.8 Recommendation:

Regarding objective number one of the study, the current study recommends that a crucial component of avoiding fraud, money laundering, and other kinds of financial crimes is exercising due diligence. Adopting due diligence is crucial for the survival and profitability of financial institutions. It is more than just a matter of complying with regulations. It is a vital instrument for preventing financial crime, preserving reputation, and preserving customer trust while allowing institutions to manoeuvre the intricate web of international finance and rules.

Regarding the second objective of the study, the current study recommends that government create laws that make use of technology to stop and identify money laundering. Use data analytics and AI-driven algorithms to find patterns and anomalies in massive datasets. Strengthen the laws governing the disclosure of beneficial ownership. Enforce sanctions for non-compliance, mandate accurate and current information, and look into central registers for beneficial ownership data.

Similarly, regarding the third objective of the study, the current study recommends that given that money laundering is a worldwide problem that cuts beyond national boundaries, international collaboration should be embraced by financial institutions.

6.8 Areas of further studies

To examine the legal and regulatory ramifications of imposing penalties and blockades as a component of AML efforts.

To examine how big data analytics, machine learning, and artificial intelligence are used to enhance AML procedures

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Appendix 1 Introduction letter

UGANDA CHRISTIAN

UNIVERSITY

A Centre of Excellence in the Heart of Africa

18th August 2023

To WHOM IT MAY CONCERN

RE: RECOMMENDATION FOR ZAWEDDE EVELYN

Greetings from Uganda Christian University!

This is to introduce to you the above mentioned who is a student of Uganda Christian University pursuing a Master of Laws in International Business

Law. Her registration number is RS21M48/006•

Evelyn is currently undertaking research which is a requirement for completion of the course. Her topic of research is "The role of Anti Money Laundering preventive strategies in enhancing the fight against Money Laundering: A case study of selected financial institutions in Uganda".

Any assistance rendered to her will be highly appreciated.

Thank you,

Yours in Service,

Mr. Edgar Baguma Quensi

Head of Department, Post Graduate Studies

UCU School of Law ebaguma@ucu.ac.ug +256 782 564 194



A Centre of Excellence in the Heart of Africa

PD. Box 4, Mukono, Uganda (East Africa), Plot 67-173, Bishop Tucker Road, Mukono Hill, Tel: +256 (0) 31 235

0800,Ugandachristianuniversity @UCUniversity, Foundedby the Pronvice of Church of Uganda, Chartered by the Government of Uganda.

Appendix 2: Participants' Informed Consent Form

PARTICIPANTS INFORMED CONSENT FORM

Introduction:

I am Evelyn Zawedde, a graduate student at Uganda Christian University School of Law pursuing a Master of Laws. I am carrying out research on a topic entitled “**the role of anti-money laundering preventive strategies in enhancing the fight against money laundering: a case of selected financial institutions in the central business**”. I respectfully ask that you consider the following explanations. The goal of the research project along with its methods are both explicitly stated in the statement. The liberty to abstain from the investigation at any time is also included in this clause. You will be required to sign an agreement at the conclusion.

Purpose

The goal of the study is to determine the role of anti-money laundering preventive strategies in enhancing the fight against money laundering: a case of selected financial institutions in the central business”. The study's results must only be utilized for academic reasons.

Procedure

Unstructured interviews with the study participants will be conducted, and both the investigator and the interviewee must engage in person. The researcher will use a voice recorder to capture the conversation during the interviews, and then the recordings will be transcribed. If the goal and the process satisfy you, you will be asked to complete the questionnaire or provide an answer to the researcher's questions.

Associated risks

You won't suffer any adverse consequences as a result of the study. However, given that certain amounts of your time will be taken up during interviews, you should prepare for some time-related problems.

Benefits

The study will be important to administrators in financial institutions if the results are encouraging. If this is the case, financial institution administrators will more managers to adopt several anti-money laundering preventive measures.

Confidentiality

The researcher promises that the data gathered will be kept private. Your names will never be revealed by the researcher at any point in the transcript; instead, codes will be utilised to distinguish between participants. Strong passwords must be used to safeguard the softcopies or recordings.

Withdraw from the study

The people participating in the research are free to decline participation, stop the interview, and/or refrain from responding to any of the interviewer's questions.

Cost

The participants in the study shall not incur any cost during the course of the study or after the study.

Follow-up and other questions

The researcher entertains other questions from the participants in the study provided they are related to the study under investigation. The researcher can be reached via email, at ezawedde@gmail.com

Statement of consent

I.....from.....Fina
ncial Institution, I have carefully read the material above, and I now consent to participate in the study without reservation. I shall be free to respond to any inquiry from the researcher in the best way I know how, or I shall be free to decline to respond to any inquiry. Finally, I reserve the right to end the interviews immediately.

Signature of the
participant.....Date:.....

Researcher.....Date:.....

Researchers' signature.....Date:.....

Appendix 3: Confirmation letters

Evelyn Zawedde,
C/O Uganda Christian University,
UCU School of Law,
P.O Box 4,
Mukono, Uganda.

The Managing Director,
Jubilee Insurance Uganda,
Plot 14 Parliament Avenue,
Kampala.

Dear Sir/Madam,

RE: RESEARCH FOR MASTER OF LAWS PROGRAMME AT YOUR INSTITUTION.

Reference is made to the above.

This is to introduce myself, Evelyn Zawedde, currently pursuing a Master's degree in International Business Law from Uganda Christian University (UCU).

In fulfilment of the requirements for completion of the Master's degree, I'm undertaking research with regards to; **"The role of Anti Money Laundering preventive strategies in enhancing the fight against Money Laundering: A case study of selected financial institutions in Uganda."**

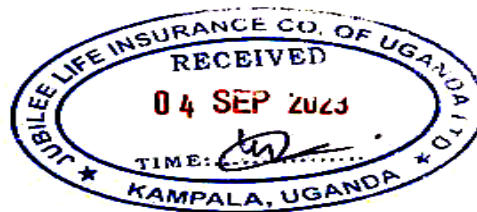
By this letter, I request your assistance as I undertake this research in relation to the topic mentioned herein.

Enclosed is a recommendation letter from the Head of Department, Post Graduate Studies at Uganda Christian University (UCU) for your reference.

Yours Faithfully,



EVELYN ZAWEDDE



**Evelyn Zawedde,
C/O Uganda Christian University,
UCU School of Law,
P.O Box 4,
Mukono, Uganda.**

**The Managing Director,
Post Bank Uganda,
Plot 4/6 Nkrumah Road,
P.O. Box 7189
Kampala, Uganda.**

Dear Sir/Madam,

RE: RESEARCH FOR MASTER OF LAWS PROGRAMME AT YOUR BANK.

Reference is made to the above.

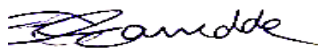
This is to introduce myself, Evelyn Zawedde, currently pursuing a Master's degree in International Business Law from Uganda Christian University (UCU).

In fulfilment of the requirements for completion of the Master's degree, I'm undertaking research with regards to; **"The role of Anti Money Laundering preventive strategies in enhancing the fight against Money Laundering: A case study of selected financial institutions in Uganda."**

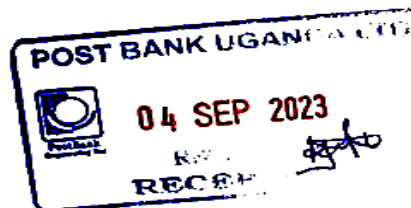
By this letter, I request your assistance as I undertake this research in relation to the topic mentioned herein.

Enclosed is a recommendation letter from the Head of Department, Post Graduate Studies at Uganda Christian University (UCU) for your reference.

Yours Faithfully,



EVELYN ZAWEDDE



Evelyn Zawedde,
C/O Uganda Christian University,
UCU School of Law,
P.O Box 4,
Mukono, Uganda.

The Managing Director,
Prudential Uganda,
10th Floor, Zebra Plaza,
Plot 23, Kampala Road,
Kampala, Uganda.

Dear Sir/Madam,

RE: RESEARCH FOR MASTER OF LAWS PROGRAMME AT YOUR INSTITUTION.

Reference is made to the above.

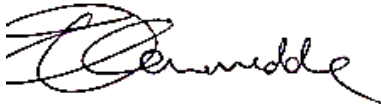
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By this letter, I request your assistance as I undertake this research in relation to the topic mentioned herein.

Enclosed is a recommendation letter from the Head of Department, Post Graduate Studies at Uganda Christian University (UCU) for your reference.

Yours Faithfully,



EVELYN ZAWEDDE



Appendix 3: Data collection tools

1. Interview guide

Section one: Due diligence

The procedure of locating and stopping money laundering

How criminals use financial institutions to launder money?

The impact of ML on financial systems, economies, and even society

The problems financial institutions encounter while carrying out due diligence

The impact of technology on the practice of conducting due diligence

The impact of international regulatory organizations and standards on the creation and application of due diligence procedures?

Difficulties financial institutions encounter in assuring adherence to various national and international anti-money laundering regulations?

How does cooperation among financial institutions, regulatory organisations, and law enforcement organisations improve the effectiveness of due diligence in preventing money laundering?

How technology changed to support efforts to combat money laundering, and how do businesses use resources like AI and machine learning?

The international pacts or treaties designed to stop money laundering?

Questionnaire

What are the central pieces of legislation for combating AML in Uganda

.....
.....

What are the international pacts or treaties designed to stop money laundering?

.....
.....

How does legislation help financial institutions to properly identify, evaluate, and reduce money laundering risks

.....
.....

How do AML laws require banking firms to implement Customer Due Diligence (CDD) procedures?

.....
.....

What are the punishments for Institutions that breach anti-money laundering requirements?

.....
.....

How is the risk assessment method used in the development and use of anti-money laundering preventive measures?

.....
.....

What essential factors do businesses look at when recognising and evaluating money laundering risks?

.....
.....

What is the significance of customer due diligence (CDD) as a primary preventive measure?

.....
.....

What methods may financial institutions employ to efficiently manage their interactions with high-risk clients and stop money laundering?

.....
.....

How have international regulatory organizations and standards (such FATF guidelines) impacted the creation and application of due diligence procedures?

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.....

What are some best practises for ensuring that staff members are knowledgeable about and involved in AML initiatives?

.....
.....

What actions do organisations take to guarantee adherence to altering AML regulations?
How do businesses work with FIUs to improve preventive measures?

.....
.....
.....

How can financial systems, economies, and even society at large suffer from money laundering?

.....
.....

What problems do financial institutions and other organizations most frequently encounter while carrying out due diligence to stop money laundering?

.....
.....

Second Goal:

What crucial role does legislation play in establishing a framework of laws to fight money laundering?

.....
.....

What are the primary laws or other regulations that underpin AML initiatives in your

region?

.....
.....

How does legislation effectively incentivize financial institutions to recognize, evaluate, and reduce money laundering risks?

.....
.....
.....

How do AML laws direct and require banking firms to implement Customer Due Diligence (CDD) procedures?

.....
.....

What are the reporting obligations financial institutions have under AML legislation?

.....
.....

What types of repercussions or punishments are included in Uganda's AML Act for institutions that don't uphold their anti-money laundering duties?

.....
.....

Goal three:

How do these sanctions affect the actions taken by financial institutions to stop money laundering?

.....
.....

What methods may financial institutions employ to efficiently manage their interactions with high-risk clients and stop money laundering?

.....
.....

How do businesses manage international trade and work with partners throughout the world to improve preventive measures?

.....
.....
What actions do organisations take to guarantee adherence to altering AML regulations?
.....
.....

How do businesses work with FIUs to improve preventive measures?
.....
.....

How the preventive measures against money laundering are will alter over the next few years, taking into account technological development and shifting criminal tactics?
.....
.....

.....END.....

Document review guide

The following documents were reviewed

The anti-money laundering Act, 2013

The terrorism Act, 2015 as amended

The Financial Institutions Act, 2004

The Proceeds of Crime Act, 2009

The Mutual Legal Assistance (Criminal Matters) Act, 2006

The Counter-Terrorism Act, 2002

The Tax Procedures Code Act, 2014

The Companies Act, 2012

The Anti-Corruption Act, 2009,

Table 3: Population category and sample size

S/N	Category of respondents	Code-named
	Legal departments	RL
	ICT personals	RCT
	Compliance officers	RCF
	Managers	RBM
	Supervisors	RSP
	Operational Managers	ROM

Regular supervision report



**UGANDA CHRISTIAN
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School for Research and Postgraduate Studies

REGULAR SUPERVISION REPORT

Supervisor's Name: Associate Prof. Norman Mugarura

Student's Name: Evelyn Zawedde

Reg No: RS21M48/006

Date of Submission of Work to Supervisor: 7TH July 2023

Date of Meeting that Discussed the Work: 8TH August 2023

SUPERVISORS COMMENTS ON STUDENT'S WORK AND RECOMMENDATION FOR ACTION

Your dissertation is in line with all parameters, it satisfies the requirements and is a good one.

STUDENT'S SIGNATURE

SUPERVISOR'S SIGNATURE

Cc Head of Department
Cc Co-supervisor (if there is one)



UGANDA CHRISTIAN UNIVERSITY

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SCHOOL OF RESEARCH & POSTGRADUATE STUDIES

DISSERTATION CORRECTION COMPLIANCE FORM (POST VIVA FORM)

Date: 27th /03/2024

Student Name: Evelyn Zawedde

Student Reg. Number: RS21M48/006

Thru: Supervisor, Associate Prof. Norman Mugarura

Dissertation Title: *The role of anti-money laundering preventive strategies in enhancing the fight against money laundering: a case of selected financial institutions in the central business district of Kampala*

Issues raised by External Examination

External Examiner	Concerns	My Responses
General	The supervisor should sign the dissertation	The supervisor appended his signature pg.ii.
Abstract	The abstract should spotlight why the topic is important. Briefly state what the problem is and how your research aims to address such problems	The candidate highlighted the problem and provided necessary recommendations to tackle the problem pg. viii.
Historical background	The sub-section on historical background is rich with relevant information. However, besides giving the	The candidate provided the contextual background pg.9-13

	<p>international historical background, you should consider highlighting the issue in the context of your case study.</p> <p>The historical background is un-necessarily long. This could be revised accordingly</p>	<p>The Candidate revisited and reworked the section by summarizing it pg. 1-13.</p>
	<p>Under sub-section 1.0.3, you refer to the Ugandan example, this should have been linked or combined in the discussion in sub-section 1.0.</p>	<p>The candidate realigned the section with the contextual background pg. 9-13.</p>
<p>Research questions</p>	<p>Research questions should be re-paraphrased</p>	<p>The candidate re-paraphrased the research question pp.16</p>
<p>Literature review</p>	<p>The chapter on literature review should include more journal articles and other scholarly work on the subject</p> <p>Section 2.1.3 on legislation should be discussed in the legal review chapter, not literature review.</p>	<p>The candidate re-visited the section and included more journal articles and scholarly works pg. 19-38</p> <p>The candidate created a different section for legal review pg. 37.</p>

Legal review	You should have a separate chapter on legal analysis, where you can discuss different laws and relevant case studies	The candidate created a different section for legal review pg. 39
General	The work reads well, but it could benefit from more restructuring of the chapters, to ensure a critical analysis.	The candidate further re-structured the entire workbook while putting into consideration UCU guidelines.
VIVA Voce		
General	Update the research with the current position of Uganda by Financial Action Task Force (FATF)	Rewritten and made it very clear. P.6
Footnotes	Footnote comes after a full stop	This candidate re-worked on the footnotes pg. 1-13; 19-41.
General	Research framework should be a major issue and the two-frame works are discussed there under	This candidate concentrated more on the major issues as suggested by the panel pg.1-18.
Literature review	Literature review should majorly critic the existing literature	Revisited and rewritten pg. 19-34

General	Should compare the rate of Money Laundering in Uganda to others countries like Kenya	The candidate compared money laundering in Uganda to other countries pg. 1-13.

Candidate's Name

Zawedde Evelyn

Supervisor's Name

Associate Prof. Norman Mugarura

Signature



Signature



NB: Post Viva compliance form is designed to capture all the corrections recommended by the internal examiner (supervisor), external examiner and viva panel.