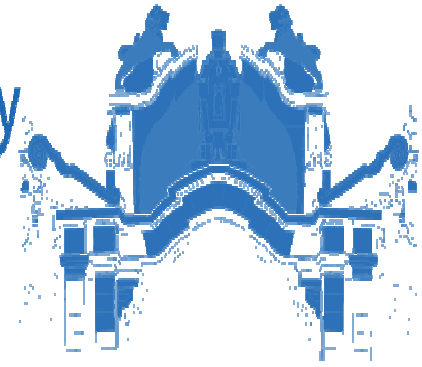




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Anti Money-Laundering and Countering the Financing of Terrorism Regime: Practices by the Ethiopian Financial Intelligence Center

By

Ashenafi Lakew

**A thesis submitted to Addis Ababa University, Faculty of Business &
Economics in partial fulfillment of the requirements for degree of Masters in
Public Administration and Development Management**

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Addis Ababa

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I the undersigned graduate student hereby declare that this thesis is my original work, and that all sources of the material used for this thesis have been acknowledged. This research study is being submitted in partial fulfillment of Master of Arts in Public Administration & Development Management.

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Acronyms

AFDB	African Development Bank
AML	Anti–Money Laundering
CBE	Commercial Bank of Ethiopia
CDD	Customer Due Diligence
CFT	Countering the Financing of Terrorism
CGCC	Center on Global Counterterrorism Cooperation
CTR	Cash Transaction Report
DNFBP	Designated Non-Financial Business and Profession
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FIC	Financial Intelligence Center (Ethiopia)
FIU	Financial Intelligence Unit
GCTF	Global Counter Terrorism Forum
GDP	Gross Domestic Product
ICRG:	International Co-operation Review Group
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
Interpol	International Criminal Police Organization
ISSP	IGAD Security Sector Program
KYC	Know your customer
MENAFATF	Middle East and North Africa Financial Action Task Force
ML/TF:	Money Laundering/Terrorist Financing
NBE	National Bank of Ethiopia
NCTC	National Counterterrorism Center
PEPs:	Politically Exposed Persons
STRs:	Suspicious Transaction Reports
UNODC	UN Office on Drugs and Crime

ABSTRACT

The main objective of this study is to assess the implementation and practice of AML/CFT regime in the case of FIC, and to measure the level of awareness and knowledge about AML/CFT of commercial banks of Ethiopia, the study also evaluates the challenges that banks face while practicing the regime and the benefits get by complying the administration are assessed.

AML/CFT is a global issue, all regimes in the world are required to cooperate with each other to apply FATF's Recommendation's which are endorsed by UN and criminalize ML/TF, Ethiopia has started practicing AML/CFT in its banks and insurances, many progresses are made in the country within these few years. Based on the respondents from both FIC and commercial banks have been discharging their responsibilities by implementing and practicing AML/CFT at a moderate level, the finding show that both FIC staffs and risk and compliance department staffs in commercial banks have knowledge and awareness about the AML/CFT regime and they took adequate and basic training concerning of the preventive measurement of money laundering and terrorist financing offence.

However, AML/CFT regime practice revealed that the existence of informal sector and cash based economy has exacerbating the money laundering offences, further, the finding confirmed that political Exposed Persons, Corruption and implementing Customer Due Diligence (CDD) & Know Your Customer (KYC) are serious challenges for banks. AML/CFT benefits measures confirmed that commercial banks understand the benefits of practicing the regime, the mean score in this regard is very high and above average.

Key Words: Ant-Money Laundering, Countering the Financing of Terrorism, Financial Intelligence Center.

APPROVAL

The undersigned certify that they have read and hereby recommend to the Addis Ababa University to accept the Thesis submitted by Ashenafi Lakew, and entitled “Anti-Money Laundering and Countering the Financing of Terrorism Regime: The case of Ethiopian Financial Intelligence Center”, in partial fulfillment of the requirement for the award of a Masters Degree in Public Management and Policy specialized in Development Management.

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CHAPTER ONE

1. INTRODUCTION

1.1. Background of the study

This chapter presents a comprehensive description analysis of issues related to the Ethiopian Financial Intelligence Center about the anti-money laundering and countering the financing of terrorism administration.

Money laundering and terrorism financing pose a significant threat to security and developmental efforts worldwide and increasingly undermine the integrity of the global financial system and its long-term stability. Many states in the Greater Horn of Africa region are going through rapid economic growth and have increasing access to global markets. With predominantly informal and cash-based economies, those states like Ethiopia are particularly vulnerable to money laundering and terrorism financing activities.¹

The AML/CFT legal framework in Ethiopia was created in 2009 following the enactment of proclamation No. 657, even though Ethiopia had already criminalized money laundering in the revised Criminal code of 2005. Ethiopia established its Financial Intelligence Center (FIC) subsequent to the promulgation of the AML law by the Council of Ministers, Regulation No. 171. The FIC began operation almost at the end of 2011 and had been designated as the central authority for handling money laundering, terrorist financing, and other related matters in the country.²

National Bank of Ethiopia following the FIC's proclamation prepared Customer Due Diligence Directives No. 46/2010 and instructed all financial institutions to implement it.

The Ethiopian FIC is the principal AML/CFT authority in Ethiopia and is responsible for coordinating the prevention and countering of money laundering and terrorist financing. The FIC

¹ Liat Shetret et al., "Tracking Progress: Anti-Money Laundering and Countering the Financing of Terrorism in East Africa and the Greater Horn of Africa," Global Center on Cooperative Security, March 2015.

² "The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia," Center on Global Counterterrorism Cooperation, February 2013

has been set up as an “independent body” directly accountable to the prime minister with the following primary functions, among others, as provided in Proclamation No. 657/2009 article 21 of the AML law and the related regulation:³

- to collect, store, analyze, and disseminate financial intelligence and information on money laundering, the financing of terrorism, and other related offenses;
- to investigate allegations of money laundering, the financing of terrorism, and other related offenses and refer cases to the relevant authorities, including police and the state prosecutor;
- to ensure compliance by and conduct inspections and supervision of accountable persons with the requirements of the AML law;
- To enhance public awareness about money laundering and terrorist financing; and
- To collaborate with other government agencies and the financial intelligence units (FIUs) of other countries in sharing information or technical assistance based on treaties or other legal authority.

The organizational structure of the FIC consists of a director-general and deputy director/general with three directorates underneath them. The two core business directorates (the Information Systems and Financial Security Directorate and the Financial Transactions Examination and Analysis Directorate) are directly accountable to the deputy director-general while the supporting directorate (the Finance and Human Resource Directorate) answers to the director-general. The Legal Affairs Service and internal audit and public relations professionals are organized as staff of the director-general. A high-level inter-ministerial Board of Directors, consisting of relevant government officials, is responsible for the overall strategic leadership of the FIC. The FIC is working toward filling existing vacancies and fulfilling its operational capacity. The FIC’s efforts, however, are limited by the scarcity of trained and qualified candidates in the field, inadequate technical systems and facilities, and low-level awareness of reporting entities and other relevant bodies.⁴

³ Proclamation No. 657/2009: Prevention and Suppression of Money Laundering and the Financing of Terrorism, *Federal Negarit Gazeta*, no. 1 (16 December 2009), pp. 5089–5104.

⁴ Tu’emay Aregawi Desta, “The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia,” Center on Global Counterterrorism Cooperation, February 2013.

AML law provides authority to the FIC to investigate ML/TF offences, but in spite of the legal provision, FIC senior leaders confirmed that the FIC is organized in an administrative model.⁵ Consequently, the FIC is referring suspected cases to concerned law enforcement agencies such as, the Ethiopian Federal Police Commission, the Ethiopian Revenues and Customs Authority (ERCA), and the Federal Ethics and Anti-Corruption Commission for further investigation.

As of many African states Ethiopia also vulnerable to transnational smuggling activities and trafficking in narcotics, persons, arms, and animal products. Additionally, Ethiopia is home to high tariffs that may further encourage customs fraud and trade-based money laundering.⁶ These vulnerabilities have contributed to a huge loss of revenue for the growing nation via illicit financial outflows. Ethiopia was ranked 39th out of 144 countries in terms of the value of these illicit flows, and although adequately measuring these flows is difficult, some have estimated a loss of \$5.6 billion in 2010 alone.⁷

This revenue loss presents a serious challenge as Ethiopia seeks to continue its economic growth and pursues middle income status pursuant to the government's 2010 "Growth and Transformation Plan."⁸ Illicit financial flows also represent a large vulnerability for the AML/CFT regime as much of these funds may be the result of money laundering, tax evasion, and international bribery.⁹

With a fast-growing economy, Ethiopia has been a country of primary concern vulnerable to money laundering and terrorism financing activities. Subject to the Financial Action Task Force (FATF) global AML/ CFT monitoring process since 2010, Ethiopia has made substantial but not always rapid progress on strengthening its legal framework, building capacity among AML/ CFT stakeholders, and improving coordination and information sharing between relevant institutions.

⁵ Ibid,

⁶ Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State, "International Narcotics Control Strategy Report (INCSR)—Volume II: Money Laundering and Financial Crimes Country Database," June 2014, p. 151, <http://www.state.gov/documents/organization/222700.pdf> (hereinafter U.S. State Department June 2014 INCSR on Ethiopia).

⁷ DevKar and Brian LeBlanc, "Illicit Financial Flows From Developing Countries: 2002–2011," Global Financial Integrity, December 2013, pp.24, 27, http://gointegrity.org/wp-content/uploads/2014/05/Illicit_Financial_Flows_from_Developing_Countries_2002-2011-HighRes.pdf.

⁸ Ethiopian Ministry of Finance and Economic Development, "Growth and Transformation Plan 2010/11–2014/15; Volume II: Policy Matrix," November 2010, <http://www.mofed.gov.et/English/Resources/Documents/GTP%20Policy%20Matrix%20%28English%292.pdf>.

⁹ Organization for Economic Co-operation and Development (OECD), *Illicit Financial Flows from Developing Countries: Measuring OECD Responses*, 2014, pp. 1–2, http://www.oecd.org/corruption/Illicit_Financial_Flows_from_Developing_Countries.pdf.

Research suggests that progress has been limited not by a lack of political will, but by the generally slow process of institutional reform resulting from the country's bulky and underdeveloped bureaucratic system.

Ethiopia has ratified the Intergovernmental Authority on Development (IGAD) Convention on Extradition, the IGAD Convention on Mutual Legal Assistance in Criminal Matters, and the UN Convention for the Suppression of the Financing of Terrorism. The country passed its first AML/CFT legislation in November 2009, which called for the establishment of an inter-ministerial AML/CFT committee and the Financial Intelligence Center (FIC).¹⁰

Ethiopia updated the law in February 2013, effectively and comprehensively criminalizing money laundering and terrorism financing and expanding the FIC's mandate. In June 2014, Ethiopia passed regulation no. 306/2014 detailing procedures for freezing terrorist assets in order to address one of the key remaining FATF-identified deficiencies in the country's AML/CFT regime. These two legal instruments, combined with the existing customer due diligence (CDD) directive from the FIC,¹¹ have served to make Ethiopia fully compliant with all international requirements as determined by the FATF.

In September 2013, Ethiopia was accepted as a full member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). As part of the membership process, the FIC is participating in an ongoing mutual evaluation with the assistance of the World Bank and ESAAMLG, which included a non-site visit involving an evaluation team and relevant stakeholders to assess the country's compliance with international AML/CFT standards. As a full member of the ESAAMLG, the FIC gains access to a regional network of AML/CFT professionals and benefits from opportunities for enhanced cooperation with other financial intelligence units (FIUs). In addition, full membership helps to advance Ethiopia's reputation in the international AML/CFT community and its journey toward joining the Egmont Group of Financial Intelligence Units.¹²

¹⁰ Regulation No. 171/2009: Council of Ministers Regulation to Provide for the Establishment of the Financial Intelligence Center

¹¹ Ethiopian FIC, "Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives," no. 01/2014, January 2014

¹² Liat Shetret et al., "Tracking Progress: Anti-Money Laundering and Countering the Financing of Terrorism in East Africa and the Greater Horn of Africa," Global Center on Cooperative Security, March 2015.

In September 2014, Ethiopia participated in an on-site visit with the FATF for a determination on whether it had fully implemented the required legislative measures and should no longer be subject to the FATF monitoring process. The FATF acknowledged the substantial progress made over the past few years and removed Ethiopia from the monitoring process.¹³ The removal represents a big achievement for Ethiopia institution and provides important recognition from the international community.

Financial Intelligence Center has developed a brochure to help raise awareness among the public about the impact of these crimes on the financial system and to inform the public about the role of the FIC and has produced short segments for TV and radio. The Ministry of Justice has collaborated on three radio programs on money laundering and terrorism financing issues, and discussions are underway to film a special AML/ CFT episode of the legal television show “Amicus.”¹⁴ Efforts have expanded beyond the capital as well, with the Ministry of Justice and FIC collaborating on a series of regional training sessions for more than 300 participants designed to improve AML/ CFT capacities in the rural areas of the country.

1.2. Statement of the problem

Money laundering and Terrorist Financing is not a question of one bank only but a problem for the country and for the international community at large, Money laundering and Terrorist Financing becomes complicated for the fact that the business in the financial sector becomes sophisticated due to new technologies like wire transfer.

The negative effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions particularly banks that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector, international trade and capital flows to the detriment of long-term economic development.¹⁵

¹³ FATF, “Improving Global AML/ CFT Compliance: On-Going Process,” 24 October 2014, <http://www.fatf-gafi.org/countries/sudan/documents/fatfcompliance-oct-2014.html>.

¹⁴ Ethiopian Ministry of Justice staff and senior FIC officials, from Global Center reports ‘tracking Progress’, Addis Ababa, March, 2015.

¹⁵ Biniyam Shiferaw, “Money Laundering and Countermeasures: A Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector” March, 2011

However, as a reason that AML/CFT is recent phenomenon most of Ethiopians, including the banks in different department, do not well aware about the benefit of AML/CFT regime; they feel that AML/CFT is initiated only by the national Government. They do not have clear vision whether AML/CFT benefits to the country as well as the world at large, this information is available from bankers while trainings are conducted and from the public as customers tell to bank's employees when they are asked to deposit and withdraw their money as per the requirement, customers usually use structuring their money to be free from being reported when they deposit and withdraw.¹⁶

In November 2009, the Ethiopian parliament enacted prevention and Suppression of Money Laundering and Financing of Terrorism (proclamation No. 657/2009); and in March 2010, the National Bank of Ethiopia issued a directive mandating Customer Due Diligence (CDD No. 046/2010) by banks.

Recently, proclamation No. 657/2009 is repealed by proclamation No. 780/2013 and NBE CDD 046/2010 by FIC AML/CFT compliance Directive No. 01/2014, as a result, commercial banks in the country are required to comply with what are required nationally and globally, the national Identity Agency Establishment Proclamation which is currently enacted to give Identification Card to citizens can facilitate the implementation of AML/CFT regime of the country.

The study is conducted to examine and assess AML/CFT system implementation and the practice of Ethiopian Financial Intelligence Center, in this regard, AML/CFT system implementation,

1.3. Research Question

To gain a comprehensive understanding of the practice under investigation and to provide clear justification, the following four specific research questions need to be addressed.

A. How is AML/CFT administration implemented and practiced by FIC?

B. What are the factors affecting AML/CFT regime practice in Ethiopian FIC and in Banks?

¹⁶ Financial Intelligence Center, 2013

C. What are the benefits of AML/CFT regime practices?

D. To what extent commercial banks comply to the AML/CFT practice and what are the level of knowledge and awareness about AML/CFT regime?

1.4. Objective of the study

Money Laundering & Terrorist Financing undermines the stability of financial systems, corrupt government officials, institutions and private sectors and it also undermines the rule of law, economy and national security. Therefore, the following study has general and specific objectives.

1.4.1. General objective of the research

The general objective of the study is to assess AML/CFT regime implementation and practice by FIC and to measure the awareness and compliance practice of commercial banks.

1.4.2. Specific objective of the study

To attain the general objective different specific objectives will be addressed, these specific objectives among others are to:-

- Assess FICs implementation practice concentrating on AML/CFT regime,
- Identify the factors that affect the practice of AML/CFT regime in FIC and Banks,
- Assess to what extent that Commercial Banks are practicing money laundering and terrorist financing preventives,
- To assess the knowledge and awareness of commercial banks about the AML/CFT regime,

1.5. Significance of the study

With Ethiopia's recent removal from the FATF monitoring process, it is important to build on recent energy and investment to encourage continued capacity building and engagement to sustain the advancements that have been made and address the remaining vulnerabilities. The

finding generated by this study enables concerned organs to grasp the necessary information about money laundering and terrorist financing in relation with their preventive measures.

The study has the following significance:

- ✓ It initiates the concerned organizations/regulatory bodies to reassess AML/CFT existing practices and adjust their concerns, such as, FIC, NBE, Police, Courts, FATF, etc.
- ✓ It gives a clear understanding to those who have concerns about AML/CFT level of practice in commercial banks, such bankers, policy makers, supervisory organs, etc.
- ✓ It will help to continue forging informal and formal working relationships among reporting entities, the FIC, NBE, judiciary, and law enforcement bodies.
- ✓ Expand awareness raising and training efforts to bank staffs with different departments,
- ✓ It provide awareness that ML offences should highly entertain in the informal sector of the economy and local associations like Ekub and Edir;
- ✓ It serves as a reference material for both academicians and practitioners as the issue is rarely studied in the country;
- ✓ It initiates other fascinated researchers to carry out more extensive studies in the area;

1.6. Scope of the Study

This study is limited to an assessment of the Ethiopian Financial Intelligence Center implementation and practice about AML/CFT regime, Further; the issue of money laundering and terrorist financing in the financial sectors and the awareness in relation to these sectors on the issue will be analyzed. The challenges and Benefits of implementing the AML/CFT regime in both FIC and commercial banks will take the lion share of the study; however, the scope of the study will be limited on Ethiopian FIC and Eight Selected commercial banks.

1.7. Limitation of the Study

The limitation of the study was indicated with the unavailability of written data in the country in relation with ML/TF since it is a relatively new issue; it will be difficult to get the questionnaires filled with ease because some respondents felt precautions to give adequate information for different reasons, mainly political, that authorities are not willing to provide information in

relation to politically exposed persons (PEPs) and corruption. Lack of provision of exact information about the action taken, if there is a sanction,

1.8. Organization of the Study

The legislators and regulatory agencies in the country have recently promulgated a flurry of rules and regulations to curtail the practice of money laundering. For this end, they are calling upon banks to play an integral role in the laws' implementation. This research is therefore organized in five chapters in order to address the new law and the mechanisms adopted as well as the role of banks in curtailing money laundering and terrorist financing.

The first chapter presents general background, statement of the problem, objective and significance of the study, scope, limitation of the study and definition of key terms,

The historical development of money laundering and the starting of the financing terrorism in the financial sectors, its process and impacts, legal frame work of ML/TF regime preventive measures at global, regional and national responses to fight such threats are discussed in the second chapter, the FATF recommendation and other related literatures are also include in this chapter,

Methodology and research design are covered in the third chapter, while the fourth chapter deals with the data presentation, analysis and interpretation of the research paper, further, chapter four contains legal documents assessed, interview conducted and questionnaires administered to AML/CFT regime practices of the country financial institutions and the ML/TF preventive measures from the perspective of financial intelligence center and finally summery of findings, conclusion and recommendation are formulated in the fifth chapter.

1.9. Definition of Key Terms and Concepts

All the terms and concepts listed and defined below is more or less used in the whole research papers and extracted from the proclamation no. 780/2013¹⁷

¹⁷Proclamation No. 780/2013 Prevention and Suppression of Money Laundering & Financing of Terrorism Proclamation

“Money Laundering”

Any person who knows or should have known that a property is the proceeds of a crime and who converts or transfers the property for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequences of his actions,

“Terrorist financing”

Any person by any means, directly or indirectly, willfully, provides or collects funds, or attempts to do so, with the intention that they should be used or with the knowledge that they are to be used in full or in part:

1. To carry out a terrorist act; or
2. By a terrorist; or
3. By a terrorist organization;

“FATF”

The Financial Action Task Force (FATF) is an independent inter-governmental body established by G-7 countries in 1989 that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognized as the global anti-money laundering (AML) and counter-terrorist financing (CFT) standard.

“Financial Institutions”

Financial institution means a bank, an insurance company, a micro finance institution, postal savings, money transfer institution or any other institution designated as such by the National Bank pursuant to the relative law;

“Know Your Customer (KYC)”

KYC under AML/CFT legislation, KYC refers to documentation which sets out a business’s approach to ensuring that it can effectively identify, verify and monitor its customers and the financial transactions in which they engage, relative to the risks of money laundering and

terrorist financing, KYC policies ensure that financial businesses can effectively identify, verify and monitor customers and customer-driven transactions, and implement risk management processes to effectively manage customer-driven risk.

“Customer Due Diligence “

Under AML/CFT legislation, reporting entities must monitor their customers with a view to identifying, mitigating and managing the potential laundering or financing of terrorism;

“Offshore Bank”

Means any Foreign Bank that is barred, pursuant to its bank license, from conducting banking activities with the citizens of, or with the local currency of, the country that issued the license does not include a Regulated Affiliate;

“Politically exposed persons (PEP)”

PEP means any natural person who is or has been entrusted with prominent public functions in any country or in an international organization as well as a member of such person’s family or any person closely associated with him;

“Shell Bank”

means any Foreign Bank that does not have a Physical Presence in the country in which it is incorporated and licensed, but does not include a Regulated Affiliate that is subject to effective consolidated supervision;

“Correspondent Bank”

Means a deposit account established and banking services provided by a bank (correspondent) to other bank (Respondent) to receive deposits, to make payments;

“Placement”

This is the first stage in the washing cycle, and it refers to the physical funds of criminal proceeds derived from illegal activity, are used in a legitimate financial system,

“Layering”

is the second stage of money laundering is the separation of criminal proceeds from their source by creating a series and complex layers of transaction to hide or disguise of the first transactions from their original source,

“Integration”

It is the last stage of money laundry process in which the provision of apparent legitimacy to the proceeds of crime. If the layering process has succeeded, integration places the laundered proceeds back into the economy in such a way that they appear as normal (business) funds or other assets.

“Suspicious transaction”

Is unusual transaction because of either the person conducting the transaction or the size, volume, type or pattern of the transaction, It indicates/suggests that the transaction is not a normal transaction and may have some linkages with illegitimate activity.

“Cash Transaction Report”

Financial institutions and designated non-financial businesses and professions shall report to the Center cash transactions above the amount fixed by the center, whether conducted as a single transaction or several transactions that appear to be linked.

CHAPTER TWO

Literature Review

2.1. The Global Threat: Money Laundering & Terrorism Financing

Money Laundering: The Problem in Context

“The white collar crime of the 1990’s is here and it is money laundering.”¹⁸

Elkan Abramowitz.

Money which is not associated with criminal activity can be freely disposed without any fear of incrimination as being part to any criminal misdeeds. Whereas, the sudden acquisition of a large amount of money without explanation invites someone’s suspicion that its source is some illegitimate activity.

In other term, Money laundering & financing of terrorism are global problems that not only threaten security but also jeopardize stability, transparency and efficiency of government systems by undermining economic prosperity, Money laundering & financing of terrorism weaken the financial system which are the main players for global financial transactions.¹⁹

2.2. History of Money Laundering

The origin of money laundering can be traced back to as early as 1930s in organized criminal activities. It is originated from Mafia ownership of Laundromats in the United States.

¹⁸Rachel Manney, (2002), Money Laundering: The Global Threat to the Integrity of Financial system, published at wilmcot.com. p.1

¹⁹Vaithilingam and Nair, 2007 and Simwayi & Guohua, 2011

Gangsters, there, were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor, and they needed to show a legitimate source for this income.²⁰

One of the ways in which they were able to do this was by purchasing outwardly legitimate businesses and mixing their illicit earnings with the legitimate earnings they received from them. Laundromats were chosen by this gangster because they were cash businesses. Laundromats also provide an appropriate analogy for the process of legitimizing earnings; illegal (dirty) money is put through a cycle of transaction, so that it comes out the other end as legal/clean money²¹.

2.3. Money Laundering Processes

It is common to divide the money laundering process in to three stages. These are placement, layering and integration, Experts in the field; however, criticize dividing the process of money laundering in to three distinct stages as it is unclear where one stage begins and the other ends.²² Nevertheless, both sides and the law enforcement community continue to refer to the different stages while discussing the issue.

2.3.1. Placement

This stage involves introducing the money in to the financial system in a way that it can be maneuvered through a series of complex transactions so as to remove the cash from its original location to avoid detection by the authorities.²³

Money launderers in the initial stage are exposed to law enforcement detection because there exists a direct connection between the profits and the crime and it also involves the physical disposal of the cash.²⁴

However, the placement of funds in to the financial system has become increasingly difficult to discover due to the large number of ways to accomplish it.²⁵

²⁰ Davies and Saltmarsh, 1994.

²¹ Steel, 1998/2005.

²² Paul Fagyal, (2006), The Anti-Money Laundering Provisions of the Patriot Act: Should they be allowed to sunset? St. Louis U.L.J. Vol. 50: 1361 P.1364

²³ Vijay Kumar Singh, (2009), Controlling Money Laundering in India-Prospects and Challenges, P.8

²⁴ Alison S. Bachus, (2004), From Drugs to Terrorism: The Focus Shifts in the International Fight against Money Laundering after Sep. 11, 2001, Arizona J. Int'l and Comp. Law, Vol.21. No.3, P. 842

In order to avoid deposits of large sum of money that may trigger suspicion and cause detection, they just use a process called smurfing.²⁶ In this process a number of individuals make small deposits in a number of different depository institutions so as to avoid detection.

Therefore, although financial institutions maintain anti money laundering compliance programs, the developing process of smurfing demonstrates the difficulty of eradicating money laundering.²⁷ Purchasing expensive property and reselling it, creating legitimate or semi legitimate business that typically deals in cash like hotels and bars are among other mechanisms used in the placement stage in order to obscure the source of illegitimate money.²⁸

2.3.2. Layering

At this particular juncture of the process, launderers separate the illicit proceeds from their sources through complex and often illusory transactions disguising the provenance of the funds.²⁹ This step is called layering because it conceals the audit trail and provides anonymity. It is the most international and complex of the laundering cycle because money is moved to offshore bank accounts in the name of shell companies, purchasing high value commodities like diamonds and transfer the same to different jurisdictions.³⁰ Different technique like loan at low or no interest rate, money exchange offices, correspondent banking, fictitious shares and trust offices are utilized for the purpose of laundering the money at this particular juncture.

The technological advancement of Electronic Fund Transfer (EFT) has also contributed for this stage of the laundering process because money movement is a click away not only at national level but at international level too as a result of electronic fund transfer.³¹

²⁵ Modelyn J. Daley, (2000), Effectiveness of United States and International Efforts to Combat International Money Laundering, St. Louis Warsaw Transatlantic Law Journal, P. 175

²⁶ Sarah Jane Hughes, (1992), Policing Money Laundering Through Fund Transfer: A Critique of Regulation Under the Banking Secrecy Act, Indiana Law Journal, Vol. 67: 283, P. 16

²⁷ Paul Fagyal, supra note at 37, P.1365

²⁸ Ibid

²⁹ Nicholas Clark, (1996), The Impact of Recent Money Laundering Legislation on Financial Intermediates, Dlekinson Journal of International Law, Vol. 14:3, P. 470

³⁰ Vijay Kumar S. supra note at 39, P. 9

³¹ International standard to discourage layering have began to develop through a focus on increased transparency in the financial system generally and through increased recognition of the need to eliminate techniques such as the use of nominees and numbered accounts to disguise the actual ownership of assets. Likewise, there has been growing international recognition that bank secrecy rules must give away to permit law enforcement agencies to

However, there are a number of characteristics that might indicate money laundering activities. Seemingly ludicrous financial transactions, large number of sales and purchases subject to commission, numerous accounts, ostensibly unconnected being consolidated in to a smaller amount of accounts and lack of concern over losses on investment, bank charges or professional advisor charges are among the traits to be mentioned.³²

Therefore, once the money has worked its way in to the financial system, it would rarely be detected independently of criminal investigation and hence needs agreement with other countries to have success in stopping money laundering at the layering stage.³³

2.3.3. Integration

The layering stage of transaction involves the transmission of money to accounts so-called bank secrecy havens or it involves a number of transactions and thus, it becomes difficult to figure out the identity of the account holder and the money's origin.³⁴

This makes it possible for the criminal to engage in the final stage. The final stage of money laundering is the integration of the funds in to the legal business environment. At this time, the money has been divided up and intermingled with the legitimate economy and moved between a number of bank accounts and nations making it almost impossible to trace.³⁵

The methods adopted to successfully integrate funds from a criminal enterprise would very often be similar to practices adopted by legitimate business and this would make it more difficult to isolate a modus operandi that is unique to money laundering.³⁶

review financial records in cases where there is an active criminal investigation pertaining to the source of the funds.

³² Paul Fagyal, *supra* note at 37, P. 1367

³³ *Ibid* P.1368

³⁴ Mariano-Florentino Cuellar, (2003), *The Tenuous Relationship between the Fight against Money Laundering and the Disruption of Criminal Finance*, *Journal of Criminal Law and Criminology* Vol. No. 2/3, North Western University, P. 329

³⁵ Kathleen A. Lacey and Barbra Crutchfield George, (2003), *Crackdown on Money Laundering: A Comparative Analysis of the Feasibility and Effectiveness of Domestic and Multilateral Policy Reform*, 23 *NW. J. Int'l Law and Business*, P. 295

³⁶ Schroeder, W.R, (2001), *Money Laundering: FBI Law Enforcement Bulletin* 70(5), P. 3

Figure 2.3.3.1; Steps of Money Laundry³⁷



Fig 1; diagrammatical illustration of Steps of Money Laundering

Figure 2.3.3.2; Overview in steps of Money Laundry³⁸

³⁷Bedi, 2006, www.unodc.Org

³⁸ Ibid,

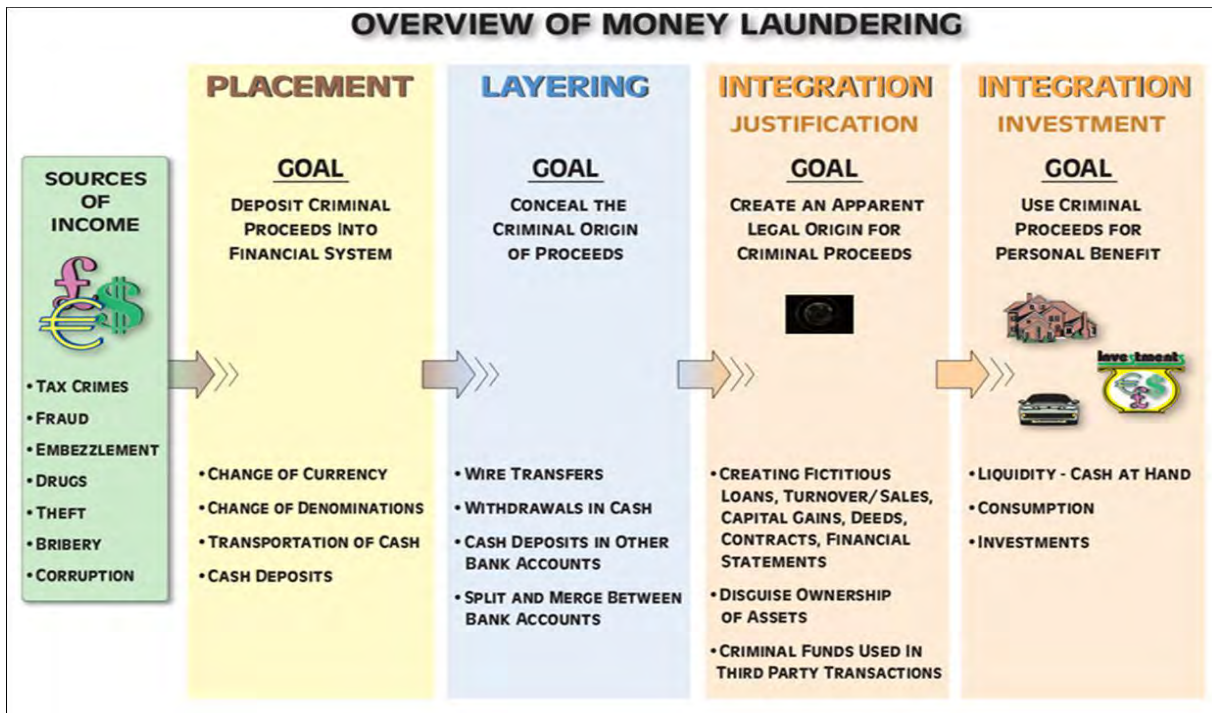


Fig 1; Overview of Money Laundering

2.4. Legal Framework to Prevent ML/TF

Despite the fact that the term ‘money laundering’ may have originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the dawn of banking itself³⁹.

However, money laundering became an issue both at national and international level with the rise of the world-wide drug trafficking in the 1980’s and the money laundering operation associated with such activity and on those involved in it attempting both to stop criminals profiting from their crimes and to trace back those proceeds in order to reach the kingpin⁴⁰

Being an international agenda, several conventions have been put in place to criminalize the acts. The 1988 United Nations Convention against illicit Traffic in Narcotic Drugs and Psychotropic Substances was the first Convention.

³⁹ Doyle, 2002

⁴⁰ Quillen, 1991

While the money laundering problem continued mounting its scope and devastating the financial systems worldwide, some few developed nations started seeking its curving mechanisms.

2.4.1. Financial Action Task Force (FATF)

Although the UN and other international bodies continued to develop mechanisms to prevent and detect money laundering and latter terrorist financing, it is acknowledged that the lead institution for international initiative to combat money laundering is now the Financial Action Task Force (FATF) on Money Laundering.

Financial Action Task Force (FATF) is an intergovernmental body formed in 1989 by G-7 countries⁴¹ summit in Paris taking the lead and develops a coordinated international response to preclude the use of financial systems from money laundering.⁴² It is a policy making body in the prevention of money laundering and it defines the problem and encourages the adoption of effective counter measures.

The foundation of the FATF response against money laundering is its 40 Recommendations that were originally issued in 1990 and updated periodically in 1996 as well as in 2003 so as to take in to account changes in money laundering methods, techniques and trends.⁴³ Further, in October 2001, in the wake of the Twin Tower terrorist attack in New York, FATF expanded its mandate and issued eight special recommendations to cover the issue of terrorist financing. In October 2004, the FATF published a ninth special recommendation making its overall standard- the 49 recommendation- a strong framework for governments to develop their domestic legislations against money laundering.⁴⁴

The FAFT standards have been endorsed directly by more than 180 jurisdictions around the world as well as by the World Bank, the IMF and the UN.⁴⁵ As of 2010, it comprises 34 member jurisdictions and 2 regional organizations.⁴⁶

⁴¹ G -7 Countries are: Canada, United States, Germany, France, Italy, Japan and United Kingdom.

⁴² <http://www.fatf-gafi.org> Accessed on: August 19, 2010

⁴³ H.E. Ping, (2008), The Measures on Combating Money Laundering and Terrorism Financing in the PRC, *Journal of Money Laundering Control*, Vol. 11: No.4, P. 321

⁴⁴ FATF Annual Report 2006-2007: available at <http://www.fatf-gafi.org>. Accessed on: August 5, 2010

⁴⁵ FATF Annual Report, 2009-2010, P.9, Available at: <http://www.fatf-gfi.org>. Accessed on: October 9, 2010

⁴⁶ Members are: Austria, Belgium, Brazil, Canada, Denmark, Finland ,France, Germany, Greece, Hong Kong, China, Iceland, Ireland, India, Italy, Japan, Republic of Korea, Luxembourg, Mexico, Kingdom of

The 40 recommendations are segmented in to four areas:

- The general framework of the recommendations
- Improvements in the national legal system
- Enhancement of the role of the financial system
- Strengthening of international cooperation.

Scrutinizing the 40 recommendations in between the lines, it spells out the risk of money laundering and the responses thereof particularly in the banking sector to control and hopefully to eradicate the predicament. Accordingly,

- Countries must criminalize money laundering
- The proceeds of crime should be frozen and ultimately confiscated.
- Banks and similar entities must install vigorous identification procedures of their customers (CDD)
- Banks must keep records
- Banks must install system, train staff and monitor how they are doing
- Countries law enforcement agencies and institutions should share intelligence
- Bilateral and multilateral treaties must be established and offenders must be extradited.

The 40+9 Recommendation enable countries to enter in to global alliance to fight the activities of money laundering and criminals. Further the FATF standards are designed among other things to take away the profits out of crime through confiscation and to investigate crime by following the money laundering trail and targeting the kingpin or professional launderers.⁴⁷

Whilst it is noted that all the recommendations are important and equal to some extent, the focus in this topic is on recommendations that deals with banks in relation to money laundering.

a. Customer Due Diligences (CDD)

The FATF recommendation, after criminalizing money laundering, comes up with different measures that must be taken by financial institutions to prevent it. Accordingly, sound

Netherlands, New Zealand, Norway, People's Republic of China, Portugal, The Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States and Regional Organizations are: European Commission and Gulf Co- Operation Council, (2009-10) FATF Annual Report,
⁴⁷ Abdullam Y. Shehu, 21, P. 142.

customers due diligence (CDD) procedures are the critical element in the effective management of banking risks as provided under recommendation. CDD safeguards go beyond simple account opening and record keeping but require banks to formulate a client acceptances policy that involves extensive due diligence for higher risk accounts and including proactive account monitoring for suspicious activities in combination with different profits.⁴⁸

CDD will help to protect the regulation and integrity of the financial system by reducing the likelihood of banks becoming vehicles for financial crimes and it also constitutes essential part of sound risk management. In the other edge, the inadequacy or absence of know Your Custom policy (KYC) can subject banks to serious customer or a counterpart risk; especially reputational, operational, legal or concentration risks which can result in significant cost to Banks,⁴⁹

b. Politically Exposed Persons (PEPs)

FATF recommendation 6 enjoins countries to have appropriate risk management system to identify whether the customer is PEP's and take reasonable steps to establish the source of funds and wealth of such persons.

Exploring this in the interpretative part, it says countries are required to include names of PEP's within their jurisdiction whereas the UNTOC (2000) under Art 52 (2) obliges state parties to provide such names on an annual basis to guide financial instruments to implement CDD with regard to PEP's.

c. Record Keeping and Suspicious Transaction Reports

After the end of business relations as part of CDD measures, financial institutions are required to keep records on both domestic and international transactions for at least five years. Such

⁴⁸ Ibid, P. 143

⁴⁹ Patrick Hardouin, (2009), Banks Governance and Public-private Partnership in Preventing and Controlling Organized Crime, Corruption and Terrorist Financing, Journal of Financial Crime, Vol. 16, No.3, P. 202.

record must be sufficient enough to permit reconstruction of individual transaction including the amount and type of currency involved in the transaction in a way that may help investigations at the time of prosecution.

When financial institutions suspect or have reasonable ground to suspect that funds are the proceeds of crime or related to terrorist activities, FATF under Reco.13 requires them to report their suspicion promptly to a Financial Intelligence Unit (FIU).

The difficulty lies on the word 'suspicious transaction' It sounds subjective; however, FATF says nothing on this except excluding civil or criminal liability of financial institutions, their directors, officers and employees for breach of any restriction on the disclosure of suspicious transaction.

2.5. AML/CTF Arrangements and Measures in Ethiopia

Globalization urges nations to enhance communications and relations to import and export their goods/products they want to exchange each other. To do these, banks are the essential conduits.

Despite the benefit of globalization prevalence of crime, such as ML/TF is the other faces of it, to prevent this common problem, FATF is authorized to make,⁵⁰ In this regard, Ethiopia agreed the FATF's required and established Financial Intelligence Unit named Financial Intelligence Center.

2.5.1. Efforts of Ethiopia to Prevent ML/TF

Ethiopia has ratified a number of regional and international instruments that directly support its AML/CFT regime, including the

- UN transnational organized crime Convention,
- UN Vienna Convention against drugs and psychotropic substances and related protocols,
- Organization of African Unity anti-corruption conventions,
- IGAD mutual legal assistance convention,
- IGAD extradition convention and

⁵⁰ Financial Action Task Force, 2014

- UN action plan that committed Ethiopia to implement. UN Security' Council Resolutions 1267 and 1373 UN Security Council.

Despite these efforts, Ethiopia has been stated many times '**public Statement**' (**Black List**) by FATF, starting 18 Feb, 2010 to Feb, 2014⁵¹, FATF declares '**public statement**' in every four months of the year.

Currently, proc. 657/2009 and Directive NBE CDD No. 046/2010 are repeated by Pro, 780/2013 and AML/CFT Compliance FIC Directives No. 01/204.

Consequently, FIC is expected to have been discharges its responsibility by adopting FATF's 40+9 Recommendation together with the legal contents of the Proclamation and Directives. However, many researchers, including the regulatory body FATF, argue that Ethiopia had strategic deficiencies in practicing AML/CFT to prevent the predicament.⁵²

2.5.2. Compliance Functions in Banks

Laws, customs and codes are meant to bring a semblance of orders and uniformity in conduct of the various stakeholders. Compliance to these ensures order lines and reduces overall systemic vulnerability. For this, it is imperative that the regulated entities such as banks are willing to commit themselves to the laws of the land and comply with the regulations, including self-regulations, in securing compliance; regulators have adopted different strategies ranging from codification of laws, rules and regulations, to periodical meetings with the subjects review mechanism⁵³.

Compliance is a theme that pervades all sphere of banking functions. Bankers deal with complicated legal, regulatory and supervisory issues all the time, transcending various spheres

⁵¹ www.fatf-gafi.org

⁵² FATF, 2013 and UNODC, 2012

⁵³ Lagzdins & Sloka, 2012

of banking operations, for these complicated tasks, independent Compliance officers shall be appointed at the bank.

Banking activities are borderless. Due to these unique banking features of international aspects and per the NBE's enquiry, Ethiopia's commercial banks have started performing AML/CFT tasks starting 2010.

To discharge these responsibilities, commercial banks have been legally required to establish Compliance Units by designating Compliance Officers at the Senior Management Level to be responsible for issuing compliances (Proc. 780/2(13, Art. 1 1 (3)). This type of practice is common worldwide in banks. For instance, Basel stated by No.24 as, bank compliance officer shall be independent; each bank should have an executive or senior staff member with overall responsibility for coordinating the identification and management of the bank's compliance risk and for supervising the activities of other compliance function staff, However, some people argue against its practicality in Ethiopian commercial banks.

It is assumed Unit starting from 2010, all Ethiopia's commercial banks have formed their own Compliance units by authorizing them to control ML/TF crimes, prepare policies and procedures, report CTRs and S'IR to FIC:, keep records, train employees and measure compliance risks.

Further, Ethiopia faces a number of significant vulnerabilities that pose continual and increasing risks of money laundering and terrorist financing,⁵⁴ these include

- ✓ the prevalence of a significant informal and largely cash-based economy;
- ✓ the prevalence of high-level serious crimes, such as corruption, tax evasion, smuggling, trafficking (human, drugs, and arms), and illicit financial flows;
- ✓ limited awareness of the problems of money laundering and terrorist financing and their impacts;
- ✓ poorly managed, porous borders;

⁵⁴ Tu'emay, 2013

- ✓ limited control mechanisms over movement of cash; regional instability and the growing presence of transnational criminal networks in the region, extending into other sub-regions including the Sahel and West Africa; and
- ✓ Limited measures on anti-money laundering and countering the financing of terrorism (AML/CFT) and inadequate capacities to implement existing frameworks and legislation.

2.6. Challenges of AML/CTF Implementation and Practices

According to Yepes (2011), population size, the country's level of development, geographical factors, cultural links, political stability, IT infrastructure, compliance costs⁵⁵ are the major challenges in implementing AML/CTF in financial services of a country.

Other contextual challenges that might significantly influence the effectiveness of a country as well as its banks' AML/CFT measures include the maturity and sophistication of the regulatory and supervisory regime in the country; the level of corruption and the impact of measures to combat corruption; or the level of financial exclusion. Such factors may affect the ML/FT risks and increase or reduce the effectiveness of AM UCH' measures⁵⁶.

On the other hand, in addition to the above mentioned challenges, FATF (2013) stated as "an effective AML/CFT system normally requires certain structural elements to be in place, For example: political stability; a high-level commitment to address AML/CFT issues; stable institutions with accountability, integrity, and transparency; the rule of law; and a capable. Independent and efficient judicial system" The lack of such structural elements, or significant weaknesses and shortcomings in the general framework, may significantly hinder the implementation of an effective AML/CFT framework.

Risk, materiality, and structural or contextual factors may in some cases explain why a country is compliant or non-compliant, or why a country's level of effectiveness is higher or lower than might be expected, on the basis of the country's level of technical compliance. These factors

⁵⁵ Simwavi. et al. 2011

⁵⁶ FATF Std., 2012.

may be an important part of the explanation why the country is performing well or poorly, and an important element of assessors' recommendations about how effectiveness can be improved.

According to Dr. Chaikin, a critical feature of the FATF Standards is the requirement that all financial institutions know their customer, so that they do not unwittingly assist in the laundering of illicit funds. There is a requirement that customers will be classified according to their AML and counter-terrorism financing (CTF) risk, with enhanced Customer Due Diligence measures applied to higher risk customers, such as PEPs, according to⁵⁷.

2.6.1. Banking Technology

Technological development particularly information processing, has been the last few decades main force of change, not only in financial services, But in all sectors, ranging from education to entertainment through manufacturing and even in agriculture. As a result many sectors have changed and are changing their strategies to adapt to the dynamic economy need. The penetration of new information technology and the advances of the new economy across the world remain significantly uneven. Hence, policy makers are facing the challenge to create an enabling environment for newly created business models⁵⁸.

Though using modern banking information technology's benefits for the development and growth of commercial banks in relation with AML/CTF compliance practices are tremendous; high cost, frequent change of banking software development, shortage of skilled man power in the area, the slow development of telecommunication infrastructure are some of the great challenges to commercial banks of Africa⁵⁹, The investments in technological infrastructure and application of these technologies in the financial services industry have been made slow, partially due to public information policies in Africa that restrict access to certain sites⁶⁰.

The tragedy is that the market and AML/CFT compliance aspect urge banks of each nation to own up-to-date banking software, making the challenge worse and worse than ever, If these

⁵⁷ Chaikin, 2014

⁵⁸ Grais & Kantur, 2003

⁵⁹ Oshikoya & Hussain, 2000

⁶⁰ Abiola. 2013

banks do not comply world's requirement, the consequence is financial sanctioning; being out of the market.

2.6.2. Risks of ML/TF in Commercial Banks

Commercial banks' ML/TF risks are not different from the country's risks. The non-fulfillment of compliance responsibilities is likely to bring to the fore various risks that may have potentially devastating effects on the bank. FATF Guidance(2013), Basel (2014) and FATF Standards (90 17) define Bank Compliance Risk as "the risk of Legal, regulatory sanctions, material & financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self regulatory, organization standards, and codes of conduct applicable to its banking activities."

The compliance area is, thus, critically important in identifying, evaluating, and addressing legal and reputational risks. The penalties imposed by regulators/supervisors, including license banning on regulated entities for non-compliance of directions, rules and statutory requirements and the associated "name and shame" that these penalties bring in their wake, are a manifestation of the compliance risk facing banks⁶¹.

According to the Basel, (2005 & 2014), sound ML/TF risk management has particular relevance to the overall safety and soundness of banks and of the banking system in that it:

- Helps protect the reputation of both banks and national banking systems by preventing and deterring the use of banks to launder illicit proceeds or to raise or move funds in support of terrorism; and
- Preserves the integrity of the international financial system as well as the work of governments in addressing corruption and in combating the financing of terrorism.

The inadequacy or absence of sound ML/TF risk management exposes banks to serious risks, especially reputational, operational, compliance and concentration risks. Recent developments, including robust enforcement actions taken by regulators and the corresponding direct and

⁶¹ Basel, 2005

indirect costs incurred by banks due to their lack of diligence in applying appropriate risk management policies, procedures and controls, have highlighted those risks. These costs and damage could probably have been avoided had the banks maintained effective risk-based AML/CFT policies and procedures,⁶²

By virtue of Art, 22: 3 (a- h) Proc. No. 780/2013, FIC is mandated to provide information to regular authorities, So that they can impose one or more measures and sanctions on financial institutions, designated non financial businesses and professions when the proclamation's obligations are violated. The penalties are written warnings; order to comply with specific instruction: order to get regular reports from the financial institutions and designated non-financial businesses and professions on the measures they are taking: fine in an amount not less than Birr 10,000 and not greater than Birr 100,000, barring individuals from employment within the business sector or profession: restricting the powers of managers, directors and controlling owners- including the appointing of ad hoc administrator; suspending or revoking of license and prohibiting the continuation of the business or profession: or other appropriate measures.

Commercial banks should mitigate these risks, by practicing the FATF 40+9 Recommendations of compliance programs such as AML/CTF independent compliance officer designation, approved policy and procedure, fulfillment of resources, customer identification, wire transfer, record keeping, training, suspicious transaction reporting and information sharing.

2.7. Benefits of AML/CTF Practices in Commercial Banks

According to Bartlett (2002), an effective framework for anti-money laundering and combating the financing of terrorism has important benefits, both domestically and internationally, for a country and its commercial banks. These benefits include lower levels of crime and corruption, enhanced stability of financial institutions and markets, positive impact on economic

⁶² Basel, 2010.

development and reputation in the world community, enhanced risk management techniques for the country's financial institutions, and increased market integrity.⁶³

2.7.1. Fighting Crime and Corruption

A strong AML/CFT institutional framework that includes a broad scope of predicate offenses for money laundering helps to fight crime and corruption in general.

An effective AML regime is a deterrent to criminal activities in and out itself; such a regime makes it more difficult for criminals to benefit from their acts. In this regard, confiscation and forfeiture of money laundering proceeds are crucial to the success of any AML program. Forfeiture of money laundering proceeds eliminates those profits altogether, thereby reducing the incentive to commit criminal acts⁶⁴.

2.7.2. Enhancing Stability of Banks

Public confidence in banks, and hence their stability, is enhanced by sound AML/CTF practices that reduce their risks to their operations. These risks include the potential that either individuals or banks themselves will experience loss as a result of fraud from direct criminal activity, lax internal controls, or violations of laws and regulations (Basel, 2014). In addition to the public confidence benefits, an effective AML/CFT regime reduces the potential that the institution could experience losses from fraud.

2.7.3. Encouraging Economic Development

Money laundering has a direct negative effect on economic growth by diverting resources to less productive activities. Laundered illegal funds follow a different path through the economy than legal funds. Strong AML/CFT regimes provide a disincentive for the criminal involvement in the economy. This permits investments to be put into productive purposes that respond to consumer needs and help the productivity of the overall economy.

2.8. ML/TF Preventive Measures in Commercial Banks

⁶³Bartlett, 2002

⁶⁴Chatain et al, 2009

The most important measures of the FATF Recommendations, FATF Standards (2012), Basel Compliance Principles (2005) and Customer Due Diligence (2001) are the requirements commercial banks to resume set of obligations to prevent money laundering and terrorism financing. Therefore, any commercial banks are required to practice the following specific obligations and measures:

- a. Assigning an independent compliance officer at managerial level,
- b. Providing training to employees,
- c. Allocating adequate resources to handle tasks,
- d. Conducting procedures for compliance audit review,
- e. Conducting automatic customer screening and
- f. Conducting approved compliance policy and procedure,
- g. Conducting customer identification procedures (CDD),
- h. Conducting procedures to meet reporting requirements and lines,
- i. Conducting record keeping obligations,
- j. Conducting PEPs monitoring requirements,
- k. Conducting risk assessment procedures,
- l. Conducting client account monitoring,
- m. Conducting information sharing with regulatory organs and others.
- n. Reporting suspicious accounts and cash transaction reports,

Further, according to FATF (2013) and Basel (2014) financial institutions, such as banks, with their compliance officers, should be required to take appropriate steps to identify, assess, and understand their ML/TF risks: for customers, countries or geographic areas; and products, services, transactions or delivery channels.

CHAPTER THREE

Research Design and Method

This Part includes the design of the study, sampling, and types of data collection and methods of data analysis.

3.1. Research Design

The study examines Anti money laundering and countering the financing of terrorism system implementation and the practice of Ethiopian Financial Intelligence Center, in this regard, AML/CFT system implementation, opportunity and challenges/factors are indicated, and the study also assesses the banks knowledge, awareness and compliance practice related to AML/CFT scheme.

Therefore, the study is explanatory study and examines the activity and implementation based on qualitative and quantitative data through both primary and secondary data. According to Mumya, mixed research was an approach which researcher collects, analysis and “mix” or “integrates” both quantitative and qualitative data in a single study to understand a research problem.⁶⁵ But, in this case qualitative data analysis was plentiful and quantitative data analysis plays the supportive role. Therefore, in this research empirical mixed research type preferred to address research objectives and thereby to investigate the AML/CFT regime in Ethiopia’s FIC and Banks.

3.2. Population and Sampling Techniques

⁶⁵ Mamuya, 2007

Population refers to any completed group of potential participants relevant to the purpose of the study.⁶⁶ In this study the Ethiopian Financial Intelligence Center and public and private commercial banks as target population and participants of the study selected purposively.

It was difficult to collect data from the whole population hence the researcher chose the sample technique based on who represented the population of the study. This study employs purposive techniques due to the nature of the study. The interview with the directors of the departments has taken purposive sampling. However, the individuals in the departments have the same duty and responsibility in the same department and they have the same opportunities to know the subject matter.

Based on this purpose from Financial Intelligence Center, Director General, Legal Affair Service, Public Relation Service, Deputy Director General, Information Systems & Financial Security Directorate and Financial Transactions Examination & Analysis Directorate 23 expert staffs were considered as sample. Among 19 Ethiopian banks, 8 public and private commercial banks are considered as a population,

Risk and compliance directorate, senior risk analyst, senior compliance analyst and compliance officers from those purposely selected banks are considered as a sample size for this research.

3.3. Types of data and tools of Data Collection

Information was gathered from both the primary and secondary source of data. The primary data extract information directly from Financial Intelligence Center and Commercial Banks their awareness, understanding and compliance practice through various data and collection tools,

Whereas the secondary data were FATF's legal documents, such as recommendation, annual reports, Guidance, Evaluation Reports, Research papers, etc. banks policies and procedures, and other relevant documents, banking supervision documents of the Basel Committee were the other secondary sources,

⁶⁶Kothari, 2004.

Websites, proclamations, legal documents and directives which were found in some libraries and banks' offices were used as a major source of secondary data.

3.4. Procedures of Data Collection

Data collection instruments had to extract the required information from participants of Financial Intelligence Center and commercial banks risk and compliance directorate staff. In this study the researcher had used various approaches,

In order to get a clear and more detail response from the directorates and high level management, the research used structured interview and closed ended questionnaire for FIC staffs,

The other type of questionnaires was prepared to be filled by commercial banks' respondents which had three parts; the first was Section (A) which consist of a question about awareness and understanding of AML/CFT, using the five-point likert scale ranging from (5) strongly agree to (1) as strongly disagree to be replied by respondents.

The next section (B) requesting respondents to provide their agreements/disagreement on the listed challenges while banks implementing and practicing AML/CTF regime.

The last was section (C) requesting respondents to rate the listed benefits of AML/CTF compliance practices in their respective banks (appendix II).

Prior to distributing these questionnaires, they were pre-tested with some selected participants to make sure that if ideas and terminologies of the prepared questionnaires used were correct or not to obtain feedback about contents, forms and guidelines on how to improve clarity and ease of use.

Then after, the printed questionnaires were distributed to respondents in their working offices in person. On the date fixed to retrieve, the filled questionnaires were collected by the researcher. It took a total of 40 days for distributing and collecting the feedbacks.

3.5. Methods of Data Analysis

The data collect from respondents was edited and coded for analysis. The collected data from sample was analyzing through quantitative and qualitative data analysis techniques. The quantitative analyses techniques include descriptive statistics (Mean, percentage, frequency) to achieve the objectives of the study. Statistical Package for Social Science (SPSS) version 20 and other techniques was used in quantitative data analysis. The qualitative analyses will apply for the data which was collect via open-ended Questionnaire and interview, various proclamations, regulations and directives.

Validity and Reliability

Reliability and validity address issues about the quality of the data and appropriation of the methods used in carrying out the research.

3.5.1. Validity

Items in the questionnaire were prepared using a five point scale multiple questions. In order to ensure validity of the items incorporated my advisor and compliance team leader examined the instrument before it was distributed.

3.5.2. Reliability

Internal consistency of items incorporated in the instrument was checked by using Cronbach's Alpha to explain the respondent level of awareness regarding of the questions. Mean of each variable was computed and then the reliability was checked based on the means.

Table 3.5.3.1 reliability data

Factors under study	Cronbach's alpha	No. of Items
AML/CFT Knowledge & Awareness	.883	17
AML/CFT Implementation/Practice Challenge	.661	11
Opportunity of implementing AML/CFT	.654	8
All Variable Average	.863	36

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

This chapter presents the results gained and discussion with legal documents assessed, the interview conducted and questionnaire administered in relation to set up objectives, research questions and literature review by analyzing to conclude and make recommendation, As mentioned in the research methodology, the research questionnaires were prepared in two formats one is for Financial Intelligence Center and 15 questionnaires were distributed, among them 13 (83%) were returned and the second questionnaires had been prepared to Eight purposely selected banks and distributed to 60 respondents, among them 56 (93%) questionnaires were returned, Statistical methods such as frequency, graphs, mean, Standard deviation were used.

In this chapter, implementation and practice of FIC Staff and Bank Compliance respondents about AML/CFT, Methods and Techniques of AML/CFT, Bank AML/CFT Knowledge & Awareness, AML/CFT Implementation and practice challenges, benefits of AML/CFT implementation and practice were presented.

To obtain better findings, the researcher conducted personal interview with FIC directors who have experience with analysis, investigation and prosecution with the related investigation files,

4.2. INTERVIEW & QUESTIONNAIRE FORWARDED TO FIC

Based on the interview results it has been almost Six years by the coming June 2016, since Ethiopian Financial Intelligence Center (FIC) effectively started a regular activity and in January, 2012 the FIC starts receiving cash transaction report and Suspicious transaction report and activate inspection and analysis following the enactment of Proclamation No. 657/2009 to fulfill FATF's requirement. Since then, the country has made a lot of tasks in relation with AML/CFT regime requirement, In October 2014, the FATF formally removed Ethiopia from its ongoing monitoring process related to AML/CFT compliance.

To address the questions about the implementation and practice of AML/CFT regime in FIC, questions are forwarded to FIC, These where to get number of ML/TF charges pressed, numbers of Suspicious Transaction Reports (STRs) and numbers of Cash Transaction Reports (CTRs) which were collected from reporting entities, FIC replied that Charges convicted, number of STRs and CTRs starting from its commencement, January 2012, Table 1, 2 and 3 are indicated below respectively,

Table 4.2.1: ML/TF charges convicted

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks	14	16	16	16	62
2	Private Banks	3	3	3	3	12
	Total	17	19	19	19	74

Source: FIC Data, 2016

Table 4.2.2: Suspicious Transaction Reports

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks	21	226	318	633	1,198
2	Private Banks	15	274	256	209	754
	Total	36	500	574	842	1,952

Source: FIC Data, 2016

Table 4.2.3: Cash Transaction Reports (above threshold)

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks	104,774	546,166	625,161	578,298	1,854,399
2	Private Banks	143,826	448,351	456,238	442,614	1,491,019
	Total	248,590	994,517	1,081,399	1,020,912	3,345,418

Source: FIC Data, 2016

In the interview, FIC responds that commercial banks started formal reporting on the beginning of January 2012,

Even if banks don't have the willingness and awareness as well as the problem in reporting to FIC especially the private commercial banks, besides, as FIC explained for the researcher there is big gap with the stakeholders especially the national bank of Ethiopia to collaborate the offences, though, in this particular four years 74 charges convicted in money laundry and terrorist financing case.

Hence, if compared the Year 2012 reports with of 2015, number of STRs in the Year 2015 has increased highly from 21 number of suspicious to 633 in State-Owned bank and from 15 to 209 Number of suspicious transaction increased within this Four years period in private banks.

Even if, the data collection period faces considerable challenges in those particular years, banks are discharging their responsibility by reporting such a large number of accounts/customers that they imagine suspicious. STRs number increased from time to time, it is possible to say that compliance culture in banks have been enhancing from time to time.

Within these Four reporting years, since from 2012 – 2015; the threshold was previously 200,000.00 ETB or 10,000.00\$ its equivalent other currencies and since 2014 half year the threshold is significant and changes to 300,000.00 ETB or its equivalent in other currencies 15,000.00\$. Thus, within those years all Ethiopian commercial banks reported a total of **3,345,418** CTRs to FIC, this implies that banks have developed a good compliance reporting culture and the business that customers are more reliable and intimate with banks, besides, FIC's vigorous supervision.

In order to get the response about the factors related to the implementation process in FIC questions are forwarded and in return response for adequate and regular training has been given, majority of the respondent or 69% agree and 15% of them are strongly agree that adequate & continuous training were taken, and same number of respondent 8% are gave a neutral answer and 8% of they are disagree.

Regarding of the knowledge and awareness about the technique and methods of AML/CFT offences, 46% of the respondents agree and 23 % of them are strongly agree to have knowledge about the technique and methods, the rest 8% respondent are gave a neutral answer and 23% of FIC staff presented disagree about the technical knowledge of the offence.

For the question that essential product of AML/CFT directives are provided by FIC among 56 respondents same number which is 31% of the staffs given agree and disagree about the provision of essential directives, and 15% of them strongly agree that directives are provided, the remaining 8% and 15% respondents has been given strongly disagree and a neutral answer respectively.

About the weak cooperation and coordination of law enforcement agency & regulatory bodies for the offences 62% respondents agreed and 15% of them are strongly agree about the weak support of the stakeholders and the remaining 23% of the respondents reply a neutral answer.

From the research finding that the FIC staff know about the bank weak commitment, knowledge and skill towards implementing AML/CFT regime by score 46% of the respondent agree and 31% of them are strongly agree, the remaining 23% remain neutral for this question as well.

About banks and insurance companies effective and regular compliance activity, FIC staff respondents gave same number 31% of response for agree, disagree and neutral, and the remaining 7% given for strongly agree that banks comply the directives, this implies that there is a gap that can fill and clear by FIC staffs whether the banks & insurance companies are working through under the directives or not.

From the question forwarded to FIC about the opportunity that Ethiopia will get recent removal from FATF monitoring process, the researcher found the benefit is unquestionable and to get out of this process FIC exert endless effort, and 46% of the respondents strongly agree and 39% of them are agree that can bring a better advantage, and the remaining 15% of the respondents neither agree nor disagree.

One of the basic reasons that affecting and exacerbates the money laundry and terrorist financing offences is the existing of large amount of informal sector and current cash based economy, the reply from the respondent's show 46% & 61% of the respondents strongly agree for the existing of informal sector and cash based economy respectively, and same number of 31% agree and the remaining 15% and 8% respondents remain neutral for existing of informal sector & cash based society respectively, nevertheless, 8% of the respondents do not agree that ML/TF will not be worsen by the existing of informal sector.

For the question lack of sufficient man power in particular makes hard to prevent ML/TF crimes in Ethiopia, the result of the respondents lie 38% of them are agree and 31% also strongly agree that can worsen lack of skilled man power in preventing money laundry process,

From the research findings on the question that private banks are not willing to investigate and report suspicious transaction mostly, 38% of the respondents strongly agree and 31% also agree for reason out that banks might lost their customers if they effectively try to examine the source of their business and report as a suspicious transaction, however, 8% of the response shows disagree and the remaining 23% of the respondent reply neutral as neutral.

Know your customer (KYC) and customer due diligence (CDD) are very helpful to examine the source of wealth of customers, from the research finding 46% and 31% of the respondents are agree and strongly agree for the supportive of the technique to know who are their customers really and how they do business, 8% of the FIC staff responses they do not agree that either CDD or KYC can help to investigate the source, the remaining 15% are neutral.

To get general view from FIC staffs about Ethiopian trade activity is highly vulnerable in the treat of money laundry, 54% of the respondents are strongly agree and 15% also agree about the vulnerability of activity, the remaining 8% and 23% of the respondents are reply with strongly disagree and neutral about the vulnerability of trade activity.

The other question forwarded to FIC was rampant corruption is currently main money laundry in Ethiopia than trade based money laundry? FIC, in brief put their responses in 23% is given for strongly agree and same 23% of the respondents agree about corruption is leading money laundry, however, 15% and 8% of the respondents reply strongly disagree and agree respectively corruption is not the main ML, the remaining 31% are neutral for the question.

Political exposed person (PEPs) has a significant role in exacerbating money laundry in terms of corruption, FIC staffs put their response with highly in a neutral way which is 84%, and 8% of the respondents gave agree and the remaining 8% are disagree about PEPs can intensifying money laundry.

The last question forwarded to FIC is that by reporting cash transaction and suspicious transaction report might help tracing illicit source of an individual and entity? The FIC, response 46% of them are strongly agreed and same 46% agree CTRs & STRs can help for

tracing the source, the remaining 8% of the respondents neutral about the helpfulness of the report towards tracing the source of customers.

4.3. Bank AML/CFT Knowledge and Awareness

One of the research objectives is to examine the extent of the knowledge and awareness of AML/CFT with in Risk and compliance departments of Ethiopia's commercial banks and how effectively the laws comply in order to get additional data for the implementation of AML/CFT regime with FIC,

To address this, at what extent the provided AML/CFT knowledge and awareness proposed by the FIC and the banks manual and procedure are being practiced in Ethiopia's banks, the respondents are requested to give their feedbacks using a five point scale from '5' as strongly agree to '1' as Strongly disagree in the questionnaire attached (Appendix II).

The feedbacks are summarized by SPSS in descending order with the score of strongly disagree and disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous likert scale; ($0 \leq S.D < 2.4$). The scores of medium extent' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous likert scale ($2.5 \leq M.E < 3.4$) and the score of both agree and strongly agree extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous likert scale; ($3.5 \leq S.A < 5.0$). A standard deviation of > 0.9 implies a significant difference on the impact of the variable among respondents.⁶⁷

Table 4.3.1: AML/CFT knowledge and awareness

AML/CTF Knowledge & Awareness	N	Mean	Std. Deviation
The training and seminar I took helps me to have the knowledge and	56	3.54	1.078

⁶⁷ Oslon, 2004

awareness about the technique and methods of the AML & CFT offense.			
Monitoring accounts for suspicious activity is a regular duty of the compliance officer.	56	3.50	1.044
Procedure for compliance officer reporting line, including the one who should conduct, what should be focused and to whom the finding will be reported are prepared and being conducted.	56	3.46	.953
Periodic audit to verify the effectiveness of the compliance program is formulated and being conducted.	56	3.30	.989
I have sufficient knowledge about the similarity and difference between trade based money laundry and money laundry,	56	3.25	.939
Compliance risk assessment approach, compliance risk areas, risk assessors, evaluation methodology, finding and reporting mechanism procedures are conducted.	56	3.18	1.046
Compliance officer is left to share AML/CFT information with regulatory bodies and other concerned bodies independently.	56	3.16	1.290
Adequate and regular training has been taken from outside and from my own bank about AML & CFT,	56	3.16	1.247
Front line bank employees and branch managers are well aware of AML/CTF practice and properly comply customer due diligence and know your customer techniques.	56	2.73	1.136
All bank employees who work in different department have a concept and awareness about the money laundry and terrorist financing crime.	56	2.64	.999
The bank has an automatic screening tool that identifies PEPs, suspicious transactions, erroneous activities, etc.	56	2.52	1.175
Valid N (list wise)	56		

Source: Research data (2016)

From Table 4.3.1; required to Base on the findings that, bank compliance staff and there directors knowledge and awareness regard with compliance practice of AML/CFT regime, the respondents were instructed to respond to the statements on a 5 point Likert scale: adequate & regular training has taken (M=3.16, SD=1.247), increasing awareness about the technique by taking the training (M=3.54, SD=1.078), having knowledge about similarity & difference

between trade based money laundry and money laundry($M=3.25$, $SD=.939$), bank employees who works in other directorate have concepts & awareness ($M=2.64$, $SD=.999$), front line bank employees & branch managers knowledge & proper implementation on CDD/KYC ($M=2.73$, $SD=1.136$), and procedure for reporting line, what should be focused and to whom the report prepared, ($M=3.46$, $SD= .953$).

Compliance assessment approach, finding and reporting mechanism ($M=3.18$, $SD=1.046$), periodic audit to verify the effectiveness of compliance program ($M=3.30$, $SD=.989$), monitoring suspicious activity regularly by compliance officer ($M=3.50$, $SD=1.044$), and sharing information concerning of AML/CFT with regulatory body and other concerned groups ($M=3.16$, $SD=1.290$), and screening tools for identifying politically exposed person ($M=2.52$, $SD=1.175$).

From the research finding the respondent table 4.3.1 the mean result shows the respondents on the rationales for the knowledge and awareness about the AML/CFT regime compliance practice at bank are adequate & regular training taken, monitoring suspicious activity handling and conducting compliance report line to whom the finding reported and what should be reported are strongly agree rationales which falls under the range of **3.5 to 5.0**,

Nevertheless, periodic audit conducted for the effectiveness compliance program, knowledge about similarity & difference of trade based ML & money laundering, compliance risk assessment approach, sharing information about the offences with concerned bodies, all department staffs with in a bank awareness about ML/TF, branch managers & front line bank employee's knowledge about the offences and political exposed person suspicious transaction screening tools is given medium range which falls under the range of **2.3 to 3.4**, which indicates that the respondent response can explain banks compliance practice helps Financial Intelligence Center administration to combat money laundering and terrorist financing offences.

4.4. AML/CFT Implementation/Practice Challenges

The other research objective is to look at the challenges that face in the practices and implementation of AML/CFT regime in commercial banks of Ethiopia in order to help the FIC activity, respondents were requested to provide their feedback to the given Seven (7) listed

challenges based on a five-points scale ranging from '5' as strongly agree to '1' as Strongly Disagree in the questionnaire attached (Appendix II).

The feedbacks are summarized by SPSS in descending order using Descriptive of Mean and Std. Deviation put in table bellow,

Table4.4.1; Challenges of Implementing and Practicing AML/CFT compliance Regime

AML/CTF implementation challenges	N	Mean	Std. Deviation
Bank AML/CTF practice among cash-based society is difficult	56	4.13	1.010
AML/CTF awareness in media is lower in the country.	56	4.09	1.269
Implementing compliance practice of Political exposed person (PEP's), in a bank are difficult.	56	3.48	1.414
AML/CTF implementation costs are higher.	56	3.38	1.199
Adequate budget is not allocated for compliance department	56	3.29	1.187
Sufficient technology material is unavailable	56	3.02	1.198
Implementing customer due diligence (CDD) & Know Your Customer (KYC) is quite difficult in a bank.	56	2.80	1.257
Valid N (list wise)	56		

Source: Research data (2016)

Commercial Bank respondents were asked to respond the challenges of AML/CFT regime implementation and practice that measure banks activity at 5 point Likert scale and indicate findings on Table 4.4.1, we found the respondents rate to those questions which measures, the difficulty of cash-based society for AML/CFT practice (M=4.13, SD=1.010), shortage of media in AML/CFT awareness (M=4.09, SD=1.269), difficulty of implementing compliance practice in political exposed person (M=3.48, SD=1.414), higher implementation cost (M=3.38, SD=1.199), lack of adequate budget allocation (M=3.29, SD=1.187), unavailable of sufficient technology (M=3.02, SD=1.198), and the difficulty of executing CDD & KYC in a bank (M=2.80, SD=1.257).

From the research finding the respondent table 4.4.1 the mean result shows the respondents reflection on the challenges of practicing AML/CFT administration, the mean result shows the respondents face a challenge on practicing AML/CFT regime through cash based economy, shortage of media access in order to aware the society and difficulty of investigating PEPs in the regime are strong challenges which falls under the range of **3.5** to **5.0**, higher implementation cost, lack of adequate budget and executing difficulty on CDD & KYC specified under medium range which fall the range of **2.5** to **3.4**, which the respondents fell those challenges must be solved in order to overcome the offences and to become effective in complying for FIC.

4.5. Benefits of AML/CFT Implementation/Practice

Regarding of the benefits that might banks get by implementing AML/CFT regime practices would be the last question of the paper requires to be rated by respondents based on a Five-Point Scale ranging from '5' as strongly agree to '1' as Strongly Disagree in the questionnaire attached (Appendix II).

Respondent's agreement of AML/CFT regime implementation benefits are put in descending order of SPSS output Table, below.

Table4.5.1; Benefits of AML/CFT implementation/practice

Benefits by implementing AML/CTF system practice	N	Mean	Std. Deviation
Risk will be minimized	56	4.04	.785
Safety and soundness of the bank are enhanced.	56	3.86	.923
Its reputations is kept and improved	56	3.82	1.081
Legal fine and material loss of the bank will not exist.	56	3.75	.995
Money launderers are prevented from getting banking services	56	3.43	1.059
Valid N (listwise)	56		

Source: Research data (2016)

Implementing and effectively practice AML/CFT administration can bring the benefit for both FIC and banks itself, bank respondents measures there response at 5 point Likert scale and indicate findings on Table 4.5.1, prevent money launderers from getting banking service (M=3.43, SD=1.059), company's reputation has kept and improved (M=3.82, SD=1.081), legal fine & material loss will not exist (M=3.75, SD= .995), safety and soundness of the bank enhanced (M=3.86, SD= .923) and risk will be minimized (M=4.04, SD= .785).

From the research finding the respondent table 4.5.1 the mean result shows the respondent's reflection on the benefits getting from practicing AML/CFT administration, the mean result shows the respondents agree about all the listed points can bring benefits, as indicated benefit measurement criteria falls under the range of 3.5 to 5.0 which shows AML/CFT administration should be effectively practice.

CHAPTER FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

5.1. Summary of Findings

The general objective of this study is to examine the implementation and practice of the Financial Intelligence Center AML/CTF regime, besides to measure the AML/CFT awareness and compliance practice of commercial banks. And to recommend possible solution that improve the AML/CFT implementation on both Financial Intelligence Center and all commercial banks.

As table 4.2.1 indicates that after FIC effectively started a regular activity by receiving reports from banks and activate inspection and analysis 74 charges pressed in money laundry and terrorist financing case, table 4.2.2 also shows, that 1,198 number of suspicious transaction report received from State-Owned bank and 754 Number of suspicious transaction reports received from private banks within Four years period, and table 4.2.3 indicates that from State-Owned banks 1,854,399 number of cash transaction reports and from private banks 1,491,019 number of cash transaction report received and administered within four fiscal years period.

From the question forwarded to FIC adequate and regular training has been given with cumulative percentage of 69% and 15% of them agree and strongly agree respectively, regarding of the knowledge and awareness about the technique and methods 46% and 23% of them are agree and strongly agree that enough knowledge acquired for the implementation of AML/CFT regime, About the weak cooperation and coordination of law enforcement agency & regulatory bodies for the offences 62% respondents agreed and 15% of them are strongly agree, About banks and insurance companies effective and regular compliance activity, respondents gave 31% of them are agree, 7% strongly agree and 31% of them are disagree about compliance practice, from research finding about the Benefits that Ethiopia will get recent removal from FATF monitoring process, 46% of the respondent strongly agree and 39% of them are agree that removal can bring a lot benefits from the country,

The reasons of exacerbating money laundry and terrorist financing offences is the existing of large amount of informal sector and current cash based economy, the reply from the respondent's show 46% & 61% of them are agree and strongly agree, lack of sufficient man power in particular makes hard to prevent ML/TF crimes in Ethiopia, the result of the respondents lie 38% of them are agree and 31% also strongly agree, unwillingness of reporting the suspicious transaction in private banks response shows 38% of the respondents strongly agree and 31% also agree, KYC and CDD are very helpful to examine the source of wealth of customers, from the research finding 46% of the respondents are agree and 31% strongly agree about the usefulness, the high vulnerability of Ethiopian trade activity in treat of money laundry the response shows 54% of the respondents are strongly agree and 15% of them are agree, and the significant role of Political exposed person (PEPs) in exacerbating money laundry in terms of corruption, FIC staffs put their response with highly in a neutral way which is 84%, and 8% of the respondents gave agree and the remaining 8% are disagree.

Questions from bank respondent table 4.3.1 the mean result shows the respondents on the rationales for the knowledge and awareness about the AML/CFT regime compliance practice at bank are adequate & regular training taken, monitoring suspicious activity handling and conducting compliance report line to whom the finding reported and what should be reported are strongly agree rationales which falls under the range of **3.5** to **5.0**, periodic audit conducted

for the effectiveness compliance program, knowledge about similarity & difference of trade based ML & money laundering, compliance risk assessment approach, branch managers & front line bank employee's knowledge about the offences and political exposed person suspicious transaction screening tools is given medium range which falls under the range of **2.3** to **3.4**.

From the research finding the respondent table 4.4.1 the mean result shows the respondents reflection on the challenges of practicing AML/CFT administration, the mean result shows the respondents face a challenge on practicing AML/CFT regime through cash based economy, shortage of media access in order to aware the society and difficulty of investigating PEPs in the regime are strong challenges which falls under the range of **3.5** to **5.0**, higher implementation cost, lack of adequate budget and executing difficulty on CDD & KYC specified under medium range which fall the range of **2.5** to **3.4**, which the respondents fell those challenges must be solved in order to overcome the offences and to become effective in complying for FIC.

From the research finding the respondent table 4.5.1 the mean result shows the respondent's reflection on the benefits getting from practicing AML/CFT administration, the mean result shows the respondents agree about all the listed points can bring benefits, as indicated benefit measurement criteria falls under the range of **3.5** to **5.0** which shows AML/CFT administration should be effectively practice.

5.2. Conclusion

Money Laundering has been described as a ‘dirty needle’ injected and infecting legitimate markets with the disease of voracity basically through the financial system aggregated into one or more accounts of seemingly legitimate business venture and then ‘wired’ into somewhere else in the world.

Money Laundering, the process of disguising illegitimate money in to the legitimate economy, is the headache for countries and the world at large; consequently, Ethiopia has been a full member to the FATF-Styled Regional Bodies i.e. Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to fight against ML/TF with member Countries, besides, Ethiopia has been removed from the FATF monitoring process, as a result, the Ethiopia’s FIC is progressively enhancing practices of AML/CFT regime, for this collecting and administering the STRs and CTRs, delivering training and preparing the compliance directives, developing the technique of Know Your Customer and Customer Due Diligence are some of commendable achievements.

FIC face a considerable challenges to implement and practice AML/CFT regime, i.e. weak cooperation & coordination of law enforcement agency and regulatory bodies, the existence of large amount of informal sector and cash based economy, lack of sufficient skilled man power

in the country, lack of willingness to report a suspicious report specially in private banks and rampant corruption are factor of challenges gained from the research finding.

On the other hand, research conducted in order to attain the implementation and practice of FIC with the responsibility of different institutions compliance activity, in this regard; banks are the major role players to fight ML/TF, therefore, Ethiopian commercial banks AML/CFT regime knowledge and awareness, the challenges that face in the practices and implementation and the benefit that banks get by practicing the administration are assessed.

The finding in this study revealed that Ethiopian commercial banks have been taking their responsibilities in AML/CFT regime by implementing and practicing significantly; the mean score of each compliance measures is considerably above average. Among the measures that are highly conducted by commercial banks in Ethiopia are knowledge and awareness about the AML/CFT regime, compliance practice at bank are adequate & regular training taken, monitoring suspicious and cash transaction report activity handling and conducting compliance report line to whom the finding reported and what should be reported and information sharing.

The clear shortcomings of the banks are the knowledge gap of front line bank employers, branch managers and different department staffs except risk and compliance directorate and AML screening and PEPs CDD measures are nearer to below average. These are confirmed in the awareness and challenge parts of the feedbacks. Further, lower AML/CFT media awareness; practicing the regime under cash based society, high implementation cost, unavailability of sufficient technology is serious challenges for the implementation and practicing of AML/CFT program.

Contrary to these serious challenges, by and large, the finding confirmed that, risk and compliance department staffs of commercial banks are very aware of the benefits of AML/CFT regime practice as all the benefits scores shows above average scores.

Finally, while Financial Intelligence Center achieved significant improvement in AML/CFT regime implementation and practice, banks regular and consistent compliance practice highly support the regime to combat the money laundering and terrorist financing offences.

5.3. Recommendation

Money Laundering and Terrorist Financing is a severe crime. It can be affecting not only the economy of the country rather it can affect all sectors of the country including the good governance and security of the country. Therefore, the researcher comes up with the following recommendations.

5.3.1 Financial intelligence center

This institution should be conducting a lot of tasks than what exactly doing now, regarding of AML/CFT things recommend includes:-

- ✓ Enabling all bank staffs by providing regular and continues anti money-laundering and countering the financing of terrorism training and seminar and give a clear understanding that combating the offences is not only the responsibility of risk and compliance directorate ,
- ✓ More than monitoring, getting the public trust is the most important aspect of realizing AML/CFT regime practices in the country. Hence, FIC shall make the people and all institutions aware about benefits of AML/CFT using professional public awareness

programs and advertisements as the respondents confirmed that public awareness is the other challenges.

- ✓ The center have a legal administrative mandate to prevent and suppress money laundering and financing of terrorism, To accomplish its mandate, it should be equipped by enough material resource and technology resource, enough man power and skilled man power. Therefore, it requires adjusting itself to be capable for preventing and combating the crime with skilled man power, high technology including analysis software.
- ✓ In addition, the center should be more concentrated to combat the rampant corruption by taking necessary measurement including by tracing the case of politically exposed persons,

5.3.2. Public and private commercial Banks

- ✓ The Ethiopian banks are not at the same level of development in using banking software, due to their purchasing power, employee's professional skills, and country's telecommunication development and with other remaining reasons, the research finding showed that banking infrastructure is the serious challenges to practice AML/CFT regime, the study recommends that FATF shall appreciate what done and be consider to the realities, along with this, the national policy makers shall also study the problem in detail and seek lasting long solutions.
- ✓ Banks should enable their staff especially the front line workers and branch managers by providing the basic AML/CFT training and seminar,
- ✓ Customer due diligence and know your customer is the basic and fundamental techniques to trace money launderers, consequently, bank staffs should be aware off this techniques and key indicators,

In addition, the input received from Ethiopian financial intelligence center and selected commercial banks, the researcher offer recommendations for stakeholder and the Ethiopian government,

- ✓ The government should aggressively work to minimize the informal sector of the economy;
- ✓ Regulatory bodies such as NBE and FIC shall follow up the proclamation's proper implementation in banks, particularly forming the independent compliance officer's at the management level with a clear reporting procedures, otherwise, the country and banks are exposed for high vulnerability of compliance risks by violating the FATF's international standards and the national legal mandates, if compliance officers are not independent, they cannot report what they are mandated, further, their monitoring procedures will be limited. If they are not management members, they cannot get balanced information about the bank's functions.
- ✓ Finally, as this study focuses on the banking sector, further research is needed on the other financial and non-financial sectors which are vulnerable to money laundering and terrorist financing.

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APPENDIX I

Addis Ababa University

School of Graduate Studies

Structured questionnaire for Ethiopian Financial Intelligence Center

The purpose of this questionnaire is to collect data for the research to be conducted on: **Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance practices in Ethiopian Financial Intelligent Center**, The research is to serve the requirement for partial fulfillment of Master of Public Management and Policy (MPMP) in Addis

Ababa University, the questionnaire will help to obtain your awareness and views regarding with Anti-Money Laundering and Countering Terrorist Financing,

I respectfully request your kind cooperation in providing to answer the questions that follow as clearly and frankly as possible and your response will be highly confidential, I can assure you that the information you provide will be completely unspecified and will not be used for any other purpose it will use only for academic purpose. You don't need to write your name anywhere on the questionnaire.

Please answer by putting a thick mark (✓) in the box of your choice.

Researcher's Name: **AshenafiLakew**

- ❖ If you have any comment or suggestion regarding on the thesis please contact me via *0912-094069*

Thank You in advance for your cooperation and willingness!!

This is the part that shall be filled by Financial Intelligence Center (FIC) staffs

Please put a tick mark (✓) the AML/CTF compliance practice in your bank that best describes to the extent how they are applied.

- **Key: 1= Strongly Disagree, 2= Disagree 3= Neutral, 4= agree and 5 = Strongly Agree**

S/N	AML/CTF Implementation & Practice	1	2	3	4	5
1	Adequate and regular training has been given for FIC staff about					

	AML & CFT,					
2	Staffs of FIC have the knowledge and awareness about the technique and methods of the AML & CFT offense.					
3	Essential product of anti money laundering & countering the financing of terrorism directives are provided by FIC & NBE.					
4	The cooperation and the coordination of law enforcement agency and regulatory bodies on preventing and suppressing of money laundry and terrorist financing are low.					
5	If there is sufficient legal frame work, it has been difficult to implement it, because of, lack of commitment, knowledge and skill of institutions.					
6	Banks & Insurance companies are effectively and accordingly comply the AML & CFT directives,					
7	Even if reports from financial institution send to FIC every week there is a challenge to implement the directives.					
8	Ethiopian recent removal from the FATF monitoring process brings a great opportunity and advantage for the country.					
9	The existence of a large amount of informal sectors in a country is exacerbating the money laundering offences.					
10	Cash based economy are easily affected by money laundry and terrorist financing offences.					
11	Lack of sufficient skilled man power in particular is the reason for preventing money laundry and terrorist financing offences in Ethiopia.					
12	Private banks are not willing to report suspicious transaction mostly, for the reason that fear of losing their customer					
13	Know your customer and customer due diligence are very helpful to investigate the source of wealth of customers.					
14	Ethiopian trade activity is highly vulnerable for the threat of money laundry					

15	Rampant Corruption is currently the highest money laundry offence in Ethiopia than trade based money laundry.					
16	Politically exposed person (PEP) has a significant role in exacerbating money laundry in terms of the corruption.					
17	Cash transaction and suspicious transaction report are very helpful for tracing the illicit source of an individual and entity.					

APPENDIX II

Addis Ababa University

School of Graduate Studies

Structured questionnaire for Bank respondents

(Risk & Compliance Directorate)

The purpose of this questionnaire is to collect data for the research to be conducted on: **Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) compliance practices in Ethiopian Financial Intelligent Center**, The research is to serve the requirement for partial

fulfillment of Master of Public Management and Policy (MPMP) in Addis Ababa University, the questionnaire will help to obtain your awareness and views regarding with anti-money laundering and countering terrorist financing,

I respectfully request your kind cooperation in providing to answer the questions that follow as clearly and frankly as possible and your response will be highly confidential, I can assure you that the information you provide will be completely unspecified and will not be used for any other purpose it will use only for academic purpose. You don't need to write your name anywhere on the questionnaire.

Please answer by putting a thick mark (✓) in the box of your choice.

Researcher's Name: **AshenafiLakew**

- ❖ If you have any comment or suggestion regarding on the thesis please contact me via *0912-094069*

Thank You in advance for your cooperation and willingness!!

A. Banks AML/CFT Knowledge and Awareness

Please put a tick mark (✓) the AML/CTF compliance practice in your bank that best describes to the extent how they are applied.

- **Key: 1= Strongly Disagree, 2= Disagree3= Neutral, 4= agree and 5 = Strongly Agree**

S/N	AML/CFT Knowledge & Awareness	1	2	3	4	5
1	Adequate and regular training has been taken from outside and					

	from my own bank about AML & CFT,					
2	The training and seminar I took helps me to have the knowledge and awareness about the technique and methods of the AML & CFT offense.					
3	I have sufficient knowledge about the similarity and difference between trade based money laundry and money laundry,					
4	All bank employees who work in different department have a concept and awareness about the money laundry and terrorist financing crime.					
5	Front line bank employees and branch managers are well aware of AML/CTF practice and properly comply customer due diligence and know your customer techniques.					
6	Procedure for compliance officer reporting line, including the one who should conduct, what should be focused and to whom the finding will be reported are prepared and being conducted.					
7	Compliance risk assessment approach, compliance risk areas, risk assessors, evaluation methodology, finding and reporting mechanism procedures are conducted.					
8	Periodic audit to verify the effectiveness of the compliance program is formulated and being conducted.					
9	Monitoring accounts for suspicious activity is a regular duty of the compliance officer.					
10	Compliance officer is left to share AML/CFT information with regulatory bodies and other concerned bodies independently.					
11	The bank has an automatic screening tool that identifies PEPs, suspicious transactions, erroneous activities, etc.					

B. AML/CTF Implementation/Practice Challenges

Please put a tick mark (✓) the practice in your bank that best describes by choosing your best options.

S/N	AML/CTF Critical Factor	1	2	3	4	5
1	Sufficient technology material is unavailable					
2	Adequate budget is not allocated for compliance department					
3	AML/CTF awareness in media is lower in the country.					
4	AML/CTF implementation costs are higher.					
5	Bank AML/CTF practice among cash-based society is difficult					
6	Implementing customer due diligence (CDD) & Know Your Customer (KYC) is quite difficult in a bank.					
7	Implementing compliance practice of Political exposed person (PEP's), in a bank are difficult.					

C. benefits of AML/CTF implementation/Practices

Please put a tick mark (✓) to the extent you expect the operation of AML/CTF compliance implementation in your bank.

S/N	Benefits by implementing AML/CTF system practice in your bank	1	2	3	4	5
1	Money launderers are prevented from getting banking services					
2	Its reputations is kept and improved					
3	Legal fine and material loss of the bank will not exist.					
4	Safety and soundness of the bank are enhanced.					
5	Risk will be minimized					

This is the part that shall be filled by FIC Directorates

The purpose of this part is to show Ethiopian's bank have been conducting AML/CTF practices under the instruction of FIC.

Here, your good office is kindly requested to fill the cases listed in the table below

A. ML/TF charges Convicted

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks					
2	Private Banks					
	Total					

B. Suspicious transaction reports

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks					
2	Private Banks					
	Total					

C. Cash transaction reports (above the threshold)

S.N	Banks	Years				Total
		2012	2013	2014	2015	
1	State-Owned Banks					
2	Private Banks					
	Total					

Interview Questions for Financial Intelligence Center directorates

1. Do you think that FIC staffs and bank customers aware of the threat of ML/TF in Ethiopia?
2. What benefit will get FIC and Banks through implementing AML/CFT regime?
3. Does essentially practical ML/TF directives issued by NBE and FIC?

4. Are the directives issued to banks and insurances complied accordingly.
5. What are the challenges faced by banks in implementing the AML/CTF directives?
6. What can be suggested to policy makers to enhance the threat of ML/TF?
7. Besides the banking sector lots of money in the Ethiopian market is circulating by the informal business and how could trace the implicit work of informal sector like (ekub, edir),

Thank you!