

# **MONEY LAUNDERING AND ITS COUNTERMEASURES IN ETHIOPIA**



**MESSAY ASGEDOM GOBENA**

**May 2022**

**Addis Ababa, Ethiopia**

# **Money Laundering and Its Countermeasures in Ethiopia**

**By**

**Messay Asgedom Gobena**

**Supervisors**

**Professor Kenneth Omeje**

**Daniel G. Kebede (Ph.D.)**

**A Dissertation Submitted to the Institute for Peace and Security Studies  
of Addis Ababa University in Partial Fulfillment of the Requirements  
for the Degree of Doctor of Philosophy in Peace and Security Studies**

**May 2022**

**Addis Ababa, Ethiopia**

## Declaration

I, **Messay Asgedom Gobena**, the undersigned, declare that this doctoral dissertation entitled “*Money Laundering and Its Countermeasures in Ethiopia*”, conducted under the supervision of Professor Kenneth Omeje and Dr. Daniel G. Kebede is my own original work. In compliance with widely accepted academic practices and Addis Ababa University’s rules, I have duly acknowledged and referenced all materials used in this work. The contents of this dissertation, in full or in parts, have not been submitted to any other University or institution for the award of any degree or diploma. However, as part of this Ph.D. fulfillment, the following three articles have been published from this dissertation.

1. Messay Asgedom Gobena. (2021). Why Money Laundering is Nurtured in Ethiopia? *Journal of Money Laundering Control*, <https://doi.org/10.1108/JMLC-09-2021-0090>
2. Messay Asgedom Gobena. (2021). The Regulation of Cryptocurrencies under Ethiopian Legal Norms. *Mizan Law Review*, 15(1), 173-194, <http://dx.doi.org/10.4314/mlr.v15i1.1>
3. Messay Asgedom Gobena and Daniel Gebreegziabher Kebede. (2021). Cash Economy, Criminality and Cash Regulation in Ethiopia. *Journal of Money Laundering Control*, <https://doi.org/10.1108/JMLC-06-2021-0065>



**Messay Asgedom Gobena**

**06/05/2022**

## Approval

This is to certify that this Ph.D. dissertation titled “*Money Laundering and Its Countermeasures in Ethiopia*” is written by Messay Asgedom Gobena as partial fulfillment of the requirements of a Ph.D. in Peace and Security Studies. The Dissertation complies with the regulations of Addis Ababa University and meets the accepted standards with respect to originality and required quality. Therefore, we, the supervisors and examiners, approve the dissertation for final submission to the University.

Supervisors:

1. Professor Kenneth Omeje  \_\_\_\_\_

2. Daniel G. Kebede (Ph.D.) \_\_\_\_\_

Examiners:

1. Professor Olajumoke Yacob-Haliso (external) \_\_\_\_\_

2. Associate Professor Solomon Abay (Ph.D.) (internal) \_\_\_\_\_

Ph.D. Program Coordinator/Director of the Institute

\_\_\_\_\_

## Abstract

Despite the multi-faceted challenges posed by money laundering to Ethiopia's economy and security, money laundering and its countermeasures in the country are under-researched and under-explored. Thus, this study is conducted to examine how and why money laundering and its countermeasures operate in Ethiopia. It was carried out using a qualitative case study. Both primary and secondary data were collected, through in-depth interviews and document reviews. This dissertation finds that (i) the notion of money laundering incorporated in Ethiopia's anti-money laundering regime does not grasp the whole spectrum and purpose of money laundering, and does not reflect the context in which the illicit business operates, (ii) the laundering strategies employed by criminals are highly dynamic, symbiotic, indistinct, and tailored to a country's distinctive political economy, (iii) the political economy of Ethiopia is providing an appealing environment to the rife of money laundering and associated criminal activities, (iv) in countries like Ethiopia, foreign currency governance has a significant contribution to the emergence of financial crimes such as illicit financial flows, black market exchange, and money laundering, and (v) unlike other organized criminal groups money launderers primarily utilize the existing formal state structure, and exists as far as the formal state structure exists. Furthermore, this study discovers that although Ethiopia's anti-money laundering system (both normative frameworks and institutional operation) is a verbatim copy of international anti-money laundering standards, it is inadequate and ineffective. Finally, this study contributes to the theoretical understanding of money laundering by (i) explaining the role of political economy in the growth of money laundering, and (ii) establishing a linkage between sources of illicit proceeds, laundering strategies, risk factors, and anti-money laundering measures. This study also contributes to the theoretical understanding of anti-money laundering measures by examining the adequacy/sufficiency of domestic and international anti-money laundering standards for the prevention and suppression of money laundering in emerging and cash-intensive economies.

**Key Words:** Ethiopia, money laundering, predicate offenses, laundering strategies, political economy, anti-money laundering measures

## Acknowledgments

This Ph.D. dissertation has been one of my most significant academic achievements to date. I owe a great debt of gratitude to many people who have contributed in many ways to this research project. I am deeply indebted to my supervisors, Professor Kenneth Omeje and Daniel G. Kebede (Ph.D.), whose wisdom, knowledge, and untiring guidance have inspired me with confidence in writing this dissertation. Professor Kenneth Omeje's critical insights and views enhance the analytical dimensions of this thesis. Supervising by such an extraordinary professor is a blessing, and I am very grateful for his insightful comments and feedback.

Sadly, I missed Dr. Daniel at the last stage of my dissertation. I heard the death of Dr. Daniel with a broken heart. Dr. Daniel was a lot for me. He was my intimate friend, mentor, and adviser. Losing him at this critical juncture is heartbreaking. I would like to express my sincere condolences to Dr. Daniel's family and may God rest his soul in peace. Professor Habtamu Wondimu assisted me in the finalization of the dissertation, and I am grateful for his assistance.

I would like to thank all my interviewees for their valuable time and extremely educative contributions. Specifically, Tuemay Aregawi Desta, Commander Tesefay Gebreegizabher, Gebeyehu Gudeta, and Yonas Mamo deserve special recognition.

I would like to express my gratitude to the German government, notably the German Academic Exchange Service (DAAD), for assisting me financially during my study. I was awarded a DAAD in-country financial scholarship for the academic years of 2018/2019 and 2019/2020. As a result, I am very grateful for their assistance.

My heartfelt gratitude must go to my former workplace mentors and supervisors, specifically Deputy Commissioner Getu T/yohannes, Deputy Commissioner Abera Tsegaye, and Ayele Mulugeta, for their unwavering support throughout my career, especially during this

Ph.D. journey. Also, I want to thank all of my friends, colleagues, and those who stood by my side during this trying time.

I gratefully acknowledge the generous assistance I had received from the staff of the Institute for Peace and Security Studies of Addis Ababa University over the years of my study.

Words are short to express my gratitude to my family, especially my wife, children, mother, brothers, and sisters. My wife, Tsigereda G/medhin, has stood by my side through all my travails, absences, and fits of pique and impatience. She also freed me from the responsibility of family administration and enabled me to concentrate on my studies. So, I owe a great debt of gratitude to this brave lady. My kids, Eldana and Nathan, are my joy. Life would be difficult without them, and their affection and care motivate me to complete my Ph.D. study.

Moreover, I would like to thank my mom, Abgesh Kalayu, for her prayers, love, and tireless efforts in upgrading me, my sisters, and my brothers. Despite her lack of formal education, she is a dedicated mother who educates all of her children. Thus, my mother deserves special recognition. My brothers and sisters, I know, you all desire and pray for my success, and it is because of this that I have completed my Ph.D. journey. I owe special gratitude to all of you.

Apart from these, there is one person who deserves special recognition: my wife's sister, Zebib G/medhin. In Zebib, I see the value of a true sister, and I and my family are incredibly fortunate to have you.

Thanks, God, for making my effort true!

**Messay Asgedom Gobena**

# Contents

List of Figures .....	X
List of Tables .....	X
List of Abbreviations .....	XI
CHAPTER ONE .....	1
INTRODUCTION .....	1
1.1. Background of the Study .....	1
1.2. Statement of the Problem .....	8
1.3. Objective(s) of the Study .....	11
1.4. Research Questions.....	12
1.5. Theoretical and Conceptual Frameworks .....	12
1.6. Significance of the Study.....	21
1.7. Scope of the Study .....	22
1.8. Research Design and Methods .....	22
1.9. Operational Definition of Key Terms.....	32
1.10. Dissertation Structure .....	33
CHAPTER TWO .....	35
MONEY LAUNDERING AND ITS COUNTERMEASURES: A LITERATURE REVIEW .....	35
Introduction.....	35
2.1. Understanding Money Laundering .....	36
2.2. Money Laundering Strategies.....	44
2.3. Combating Money Laundering: International and Regional Responses .....	57
2.4. Chapter Summary .....	91
CHAPTER THREE .....	94
MONEY LAUNDERING AND ITS OPERATION IN ETHIOPIA.....	94
Introduction.....	94
3.1. Money Laundering and Its Predicted Offenses in Ethiopia.....	94
3.2. Money Laundering Strategies in Ethiopia .....	101
3.3. Chapter Summary .....	122

CHAPTER FOUR.....	125
THE POLITICAL ECONOMY OF MONEY LAUNDERING IN ETHIOPIA .....	125
Introduction.....	125
4.1. Money Laundering and Ethiopia’s Economy .....	126
4.2. Money Laundering and Ethiopia’s Political System .....	140
4.3. Geopolitical Position of Ethiopia and Porous Borders .....	144
4.4. Chapter Summary .....	145
CHAPTER FIVE .....	147
MONEY LAUNDERING AND ITS RAMIFICATIONS IN ETHIOPIA .....	147
Introduction.....	147
5.1. Money Laundering and Ethiopia’s Economy .....	148
5.2. Money Laundering and National Security in Ethiopia .....	151
5.3. Money Laundering and Human Security in Ethiopia .....	154
5.4. Chapter Summary .....	155
CHAPTER SIX.....	157
ETHIOPIA’S ANTI-MONEY LAUNDERING NORMATIVE FRAMEWORKS .....	157
Introduction.....	157
6.1. The Ethiopian Anti-Money Laundering Law: A Brief History .....	158
6.2. Pillars of the Ethiopian Anti-money Laundering Legal Norms .....	169
6.3. Inter-Agency and International Coordination and Cooperation .....	187
6.4. The Adequacy of the Normative Frameworks .....	190
6.5. Chapter Summary .....	202
CHAPTER SEVEN .....	205
ETHIOPIA’S ANTI-MONEY LAUNDERING INSTITUTIONAL OPERATIONS ...	205
Introduction.....	205
7.1. How do Ethiopia’s Anti-money Laundering Institutions Operate?.....	205
7.2. Inter-agency Coordination and International Cooperation .....	239
7.3. The Effectiveness of Anti-money Laundering Institutions .....	247
7.4. Chapter Summary .....	250
CHAPTER EIGHT .....	253
CONCLUSION.....	253

Introduction.....	253
8.1. Major Conclusions.....	254
8.2. Major Contributions .....	262
8.3. Recommendation for Further Research.....	267
Endnotes.....	I
References.....	269
Appendices.....	II
Appendix I: Interview Guidelines.....	II
Appendix II: List of documents reviewed .....	XII

## List of Figures

Figure 1: Conceptual Framework .....	20
Figure 2: Money Laundering Process.....	43
Figure 3: Core Functions of FATF .....	79
Figure 4: Money laundering through illegal <i>Hawala</i> .....	113
Figure 5: Portrayed the flow of financial intelligence in the country .....	207

## List of Tables

Table 1: List of research participants.....	25
Table 2: Type, occurrence and threat level of predicate crimes and money laundering, 2012 - 2016 .....	100

## **List of Abbreviations**

Art.	Article(s)
AU	African Union
CFT	Countering the Financing of Terrorism
COMESA	Common Market for Eastern and Southern African
CTR	Cash Transaction Report
DNFBP	Designated Non-Financial Business and Profession
FIC	Ethiopian Financial Intelligence Centre
EPRDF	Ethiopian People Revolutionary Democratic Front
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force on Money Laundering
FDRE	Federal Democratic Republic of Ethiopia
FSRBs	FATF Style Regional Bodies
GABAC	Task Force on Money Laundering in Central Africa
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GIABA	Inter-governmental Action Group against Money Laundering in West Africa
GTPII	Ethiopia Growth and Transformation Plan II
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IOM	International Organization for Migration
Km	Kilometers
KYC	Know Your Customer

MENAFATF	Middle East and North Africa Financial Action Task Force
MER	Mutual Evaluation Report
MVTS	Money Value Transfer System
NBE	National Bank of Ethiopia
NISS	National Intelligence and Security Services (Ethiopia)
No.	Number
NRA	National Risk Assessment
RBA	Risk-Based Approach
STR	Suspicious Transaction Report
U.S.	The United States
UN	The United Nations
UNODC	United Nations Office on Drug and Crime
UNSC	United Nations Security Council
USD (\$)	United States Dollar

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

One of the primary reasons for people to engage in criminal activity, especially organized crime, is to make money (Albanese, 2015; Wright, 2006). Money obtained from certain offenses such as corruption, human trafficking, contraband, tax evasion (fraud), drug and firearms trafficking, insider trading, extortion, illegal gambling, and other offenses, is 'dirty' (Lilley, 2006, p. 8). The 'dirty' money needs to be 'cleaned' to appear to have been derived from legal activities so that banks and other financial institutions deal with it without suspicion (Cox, 2014). The activity of concealing the illicit origin of criminal proceeds and transforming the dirty money into ostensibly 'clean or legitimate' money is known as money laundering (FATF, 2018c; UNODC and IMF, 2005; World Bank, 2009). Criminal entrepreneurs use money laundering techniques to conceal the true sources of their income. This allows them to avoid any possible detection by law enforcement organs and to spend their profits as obtained legally.

Money laundering is one of the most lucrative criminal businesses. At a global level, between USD 590 million and USD 3 billion is laundered annually (Camdessus, 1998; UNODC, 2011, p. 7; Walker, 2007, p. 36). This dirty money has serious economic, security, and social ramifications (Afande, 2015; Moreira, Sachside & Loureiro, 2012; World Bank, 2009). It is utilized to challenge the legitimate authority of national governments, undermine the integrity and stability of financial systems, erode rule of law, corrupt governmental officials and institutions, hinder investment and sustainable

development, and violate legal norms and human rights (Afande, 2015; Bello, 2016; World Bank, 2009). This filthy money also poses a threat to national security because it provides “the fuel for drug dealers, terrorists, arms dealers, human traffickers, corrupters and other criminals to operate and expand their criminal enterprises” (Lilley, 2006, p. 8). In this vein, Kumar (2012) asserts that money laundering plays a fundamental role in facilitating the ambitions of drug traffickers, terrorist groups, organized criminals, tax evaders, and many others who need to avoid a kind of attention from the authorities that sudden wealth brings from illegal activities. However, as IMF (2003) noted, the effect of money laundering is more devastating in developing countries or countries with fragile financial systems. The economy, society, and ultimately the security of countries utilized as money laundering platforms are all imperiled.

Money laundering is a business, social, and security ‘apocalypse’ that merits ‘draconian’ action (Lilley, 2006, p. 33). Therefore, combating money laundering entails combating complex criminality, protecting the integrity of financial systems, and most importantly, promoting transparency and good governance, and ultimately maintaining law and order.

Money laundering has become an agenda at the United Nations (UN), in particular at the Security Council, since the end of 1980s (Schott, 2006). The UN, World Bank, IMF, Group of Seven (G-7) industrialized countries, and other international and regional actors have taken several measures to curtail the menace of money laundering. The most functional international body for combating money laundering is the Financial Action Task Force on Money Laundering (FATF), which was created by the G-7 industrialized countries in 1989 (Cox, 2014). FATF sets international anti-money laundering standards,

ensures compliance of countries with those standards, studies the techniques and typologies of money laundering, and conducts outreach activities that aim to spread the standards globally (FATF, 2015a). It issued Forty Recommendations which are minimum measures that countries should have in place within their criminal justice, regulatory systems, financial institutions, some non-financial businesses and professions to detect, prevent and punish money laundering (FATF, 2015a). Those recommendations were endorsed by the United Nations Security Council (UNSC) through Resolution 1617 (2005). The Council strongly urges “all Member States to implement the comprehensive, international standards embodied in the FATF Forty Recommendations...” (UNSC, 2005, p. 3). Currently, those recommendations have become the global minimum standard for an effective anti-money laundering regime.

Money Laundering in Africa is a growing issue. Because of hugely cash-based and often informal economies, criminals are able to move dirty money across borders, concealing its source and making it clean (Moshi, 2012; Mynhardt and Marx, 2013). As many African countries are rich in either oil or precious stones, those commodities are frequently used to move funds around the continent. Moreover, the continent is plagued by crimes such as illicit financial flows, corruption, piracy, trafficking (persons, goods, arms, and drugs), illicit trade in natural resources and wildlife (Alemika, 2013; Bokosi and Chikumbu, 2015; Shaw, 2017; 2014). To evade the legal consequences of their criminal activities and to utilize the proceeds of crime without fear of audit trial, laundering the ill-gotten assets is critical. The techniques employed to launder illicitly obtained money in Africa are diverse and constantly evolving (Hunter, 2019). Hunter added that financial

markets and non-financial businesses and professionals such as accountants, auditors, lawyers, and dealers are involved in laundering schemes.

The actions and initiations taken by African regional institutions and states to combat and prevent money laundering are extremely limited and scattered. The continent lacks a robust anti-money laundering architecture. However, the Organization of African Unity Convention on the Prevention and Combating of Terrorism, and the African Union Convention on Preventing and Combating of Corruption have a considerable emphasis on money laundering (OAU, 1999; AU, 2003). The Sustainable Development Goals of 2015 and Africa's Development Agenda of 2063 have recognized the issue of money laundering and other organized criminal activities as a cross-cutting threat to development (African Union, 2015; UN, 2015). Moreover, there is no continental-wide organization mandated to combat and prevent money laundering. The African countries are organized into four FATF Style Regional Bodies (FSRBs). Those are the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Task Force on Money Laundering in Central Africa (GABAC), the Inter-governmental Action Group against Money Laundering in West Africa (GIABA), and the Middle East and North Africa Financial Action Task Force (MENAFATF) (FATF, 2018b).

The Horn of Africa is increasingly becoming an attractive place for transnational organized crime (Interpol, 2018). In the region, poaching syndicates targeting elephants, rhinos, apes, and pangolins is rising (Interpol, 2018). Men, women, and children are also abducted and sold for sexual exploitation and forced labor (Sahan Foundation and IGAD, 2016; UNODC, 2013). Eastern Africa's coast has become a favorable route for the global drug trade. Trafficking of heroin, cocaine, cannabis, and amphetamine-type stimulants into

and through Eastern Africa is raising (Haysom, Gastrow & Shaw, 2018). Besides, small arms and light weapons are smuggled to the Horn of Africa either through Djibouti or Sudan which originated from Yemen and Turkey (Hansrod, September 16, 2018). According to the EXX Africa report (August 14, 2018), the “trade of illegal weapons in the Horn of Africa remains highly lucrative and is comprehensively entwined with transnational terrorist groups, drug smuggling, and the conflict in nearby Yemen”.

Nefarious activities committed in the Horn of Africa and Eastern Africa generate a considerable amount of dirty money that necessitates laundering. As Interpol (2018, p. 4) noted, “there are substantial illicit interregional financial flows and profits laundered throughout the Eastern Africa region, with large volumes of illicit wealth often heading offshore to Europe or Asia”. Being a region of predominantly informal and cash-based economies, weak state governance, political instability, porous borders, and state fragility provide favorable conditions for the proliferation of transnational organized criminal groups, particularly money launderers (Interpol, 2019, 2018; Shetret, Durner, Cotter and Tobin, 2015). The emergence of transnational organized crime syndicates in the region was abetted by globalization and the advancement of information technology, which promotes the free movement of people, goods, and information. Although the region has been plagued by transnational criminal networks that engaged in money laundering and associated predicate offenses, it lacks a robust anti-money laundering regime (Tu’emay and Cockayne, 2012).

Ethiopia is becoming more vulnerable to money laundering as a result of its geopolitical position, the prevalence of a significant informal and cash-intensive economy, and the presence of serious crimes such as corruption (specifically in the administration of

land, procurement, tax, and pharmaceuticals) (World Bank-Eastern and Southern Africa Anti-Money Laundering Group [World Bank-ESAAMLG], 2015). Moreover, the prevalence of acquisitive crimes such as tax evasion, fraud, illegal trade (contraband), smuggling and trafficking (human, drugs, and arms), illicit financial flows, and capital flight, upsurge the country's susceptibility to money laundering (Ayele, May 9, 2016; Tu'emay, 2013; World Bank-ESAAMLG, 2015).

To curb the growing threat of money laundering, the government of Ethiopia has taken several measures. It enacted several laws, established various institutions, ratified numerous international and regional instruments, and joined several regional and international organizations. The country has criminalized money laundering and established institutions to prevent and suppress the threat of money laundering, respectively in 2004 and 2012. So far, a Proclamation on the Prevention and Suppression of Money Laundering and Financing of Terrorism No.780/2013 has provided a relatively comprehensive legal framework, whereas the Ethiopian Financial Intelligence Center (FIC) has served as the country's vanguard organ in preventing and suppressing money laundering. The FIC was established through the Council of Ministers Regulation No. 171 in 2009 and became functional in 2012. Aside from the FIC, other competent authorities and supervisory institutions, such as the Ethiopian Federal Police Commission, the National Bank of Ethiopia, the Ethiopian Customs Commission, and the Office of Federal Attorney-General (currently Ministry of Justice), play a significant role in preventing and combating money laundering.

Despite the existence of the aforementioned legal norms and institutions, anecdotal evidence indicates that money laundering poses a growing threat to the country's financial

integrity and national security (Abebe, December 10, 2020; Cusack, Tilahun, Serba and Solomon, 2020; Samson, November 12, 2017). Reports of governmental and non-governmental institutions and the media reveal that the predicate offenses of money laundering such as the smuggling of illicit small arms and light weapons, corruption, illicit financial flows, human trafficking, smuggling of persons, and contraband are steadily increasing in the country (Federal Democratic Republic of Ethiopia [FDRE], 2016b; U.S. Department of State, 2015 and 2020; Reuters, January 9, 2020; World Bank-ESAAMLG, 2015). On several occasions, the FATF and the European Commission (EC) have found strategic deficiencies in the country's anti-money laundering regime (EC, 2017; FATF, 2011a, 2017a). Thus, this necessitates a comprehensive study on the source/origin of illicit money (assets), laundering *modus operandi*, ramifications on the country's financial integrity and national security, and the countermeasures in place and their adequacy/efficacy in suppressing the menace.

To this end, this study looked at the operation of money laundering and its countermeasures in Ethiopia. It examines the sources of illicit proceeds (commonly known as predicate offenses), laundering techniques, and variables (risk factors) that have contributed to the raise of money laundering. Furthermore, this study is conducted to elucidate the ramifications of money laundering on the country's financial integrity and national security. Finally, the study explains the country's anti-money laundering measures (both normative frameworks and institutional arrangements), as well as their adequacy in dismantling the peril of money laundering to the country's financial integrity and national security.

## **1.2. Statement of the Problem**

Money laundering is becoming a growing threat to Ethiopia's national security and economic integrity. However, in the country's anti-money laundering endeavors, there are two contradictory aspects. On the one hand, there are anti-money laundering legal norms and institutions. Ethiopia has built up its anti-money laundering normative frameworks by enacting new legal norms and ratifying international and regional instruments. Ethiopia has also established new institutions, including the Financial Intelligence Center, and expanded the mandate of existing institutions, such as the Ethiopian Federal Police Commission, the Federal Attorney General, and the National Bank of Ethiopia—the country's Central Bank to deal with cases of money laundering. Moreover, the country's FIC is becoming a member of ESAAMLG and the Egmont Group of financial intelligence units. These are essential venues for the safe exchange of financial intelligence.

On the other hand, there is a fast-growing economy, and the vulnerability of this economy to money laundering is soaring. Even though Ethiopia has criminalized money laundering and established institutions to deal with it, empirical evidence suggests that this financial and security menace endures. According to the Basel Anti-Money Laundering Index, Ethiopia is one of the jurisdictions with a high risk of money laundering, 6.77/10 (Basel AML Index, 2021, p. 24). This is attributable to several reasons. First, criminal entrepreneurs are engaged in committing criminal activities that produce illicit proceeds. The sources of criminal money, such as corruption, loansharking, tax evasion, firearms trafficking, illicit trade practices (contraband), illicit financial flows, trafficking of human beings, and smuggling of persons are becoming daily news stories in the country (BBC Amharic, November 02, 2018; Ethiopian News Agency, August 30, 2018; Ethiopian

Reporter, February 10, 2019). These criminal activities generate a significant amount of filthy money. Second, criminal entrepreneurs laundered the proceeds of these crimes, amassed wealth, and enjoyed it. This money is also utilized to corrupt state officials, infiltrate the country's financial system, and finance the commission of further criminal activities. This raises a fundamental question in the existing legal rules and institutions tasked with preventing and combating money laundering, why do criminal entrepreneurs commit acquisitive crimes and launder their proceeds in Ethiopia? This demands scientific research and exploration.

In reviewing the empirical literature, it is evident that there are several academic works that deal with the issue of money laundering. However, there is a dearth of research conducted on Ethiopia. To be precise, research works that focused on money laundering in Ethiopia, *inter alia*, the Ethiopian anti-money laundering regime and the banking sector (Biniam, 2011), the anti-money laundering and countering terrorist financing regime in Ethiopia (Tu'emay, 2013), and anti-money laundering law in Ethiopia: issues of enforcement with specific references to banks (Kalkidan, 2020). Biniam (2011) was the pioneer in researching money laundering in Ethiopia. Biniam (2011) and Kalkidan (2020) researched how anti-money laundering legal norms are applied and enforced in Ethiopia's banking industry. Biniam's study was based on the Criminal Code of 2004, and Proclamation No. 657/2009. This study disclosed that Ethiopia has made remarkable progress in fighting money laundering. The research also discovered inadequacies in the country's anti-money laundering laws that require further effort. However, Biniam's research was conducted based on previous Ethiopia's anti-money laundering laws—the Criminal Code of 2004 and Proclamation No. 657/2009—which were repealed and

replaced by Proclamation No. 780/2013. Moreover, Biniam's work was limited in scope, focusing solely on the banking sector and failing to assess the law from a political economy approach.

Tu'emay's research has provided the progress and limitations of the Ethiopian anti-money laundering and countering terrorist financing regime. However, the description is very brief and provides little explanation of how and why this is so. Kalkidan's study was based on the new anti-money laundering law and other subsidiary statutes. The researcher highlighted the progress of the banking sector in implementing anti-money laundering legal norms. Kalkidan also pointed out the inadequacies of Ethiopia's anti-money laundering laws in identifying politically exposed persons, high-risk jurisdiction customers, beneficial ownership, and verifying information provided by bank customers. Kalkidan's research attempted to examine the normative frameworks and the compliance of a few selected banks with the legal norms. However, the scope of this study is limited, as it focuses exclusively on the banking sector.

In general, despite the fact that money laundering has serious ramifications for Ethiopia's economy and security, it has remained both under-researched and under-explored. Previous research had not looked into the enabling factors of money laundering in the country. The studies did not identify the sources of illicit proceeds. Instead, their focus was either on the banks or the FIC. Though banks and the FIC are major players in the fight against money laundering, the issue is not limited to them. Other financial institutions and certain non-financial businesses and professions are potential risk areas for money laundering. However, none of the studies have looked into those areas. In addition, law enforcement organs and regulatory bodies that play a key role in combating and

preventing money laundering are not adequately studied. Moreover, the researchers did not adequately explore money laundering strategies in Ethiopia, as well as the adequacy of the country's normative frameworks and institutions in preventing and suppressing the menace of money laundering.

As a result, this study is being conducted to examine the issue of money laundering and its countermeasures in Ethiopia and to fill in the gaps of previous studies. Specifically, it aimed at analyzing money laundering, sources of illicit money (predicate offenses), and laundering techniques in Ethiopia. The study also elucidates the ramifications of money laundering on the country's economy and security, and identifies enabling factors of money laundering in the country. Finally, the study explains the adequacy of the legal rules and the efficacy of institutions put in place by the government of Ethiopia to curb money laundering and associated predicate offenses.

### **1.3. Objective(s) of the Study**

The main objective of this study is to examine the operation of money laundering and its countermeasures in Ethiopia. To this end, the study eventually attempted to achieve the following specific objectives:

- To examine the operation of money laundering in Ethiopia.
- To elucidate the risk factors for the growth of money laundering in Ethiopia.
- To explain the ramifications of money laundering on Ethiopia's economy and security.
- To examine the adequacy of Ethiopia's anti-money laundering measures.

## **1.4. Research Questions**

The main research question of this dissertation is how and why money laundering and its countermeasures operate in Ethiopia? Further, this study deals with the following sub-research questions:

1. How does money laundering operate in Ethiopia?
2. Why is money laundering thriving in Ethiopia?
3. What ramifications does money laundering have on Ethiopia's economy and security?
4. How adequate are Ethiopia's anti-money laundering measures in curbing the phenomenon?

## **1.5. Theoretical and Conceptual Frameworks**

Money laundering has received increased attention in recent years. To understand what, how, and why of money laundering, there is a need for theory. The conceptual framework of this study is developed based on the theories that best explain the context, statement of the problem, research questions, research objectives, scope of the study, and research methods. This section discusses the study's theoretical and conceptual frameworks that guided the research process.

### **1.5.1. Theoretical framework**

Several theories explain why individuals or groups engage in money laundering. The researcher has consulted three theories: the rational choice theory, the political economy explanation of crime, and the social network theory. Because none of the theories

independently explain the issue under study, the researcher chose to apply an *eclectic* approach that blends the three theories.

### ***Rational choice theory***

The rational choice theory has its roots in the classical school of criminology developed by the Italian social thinker Cesare Beccaria and the English philosopher Jeremy Bentham, which professes that human beings are free actors, who are rational and possess free will (Jacob, 2011; Siegel, 2012). It is based on several assumptions: one of those is individualism; it focuses on individual behavior (Gul, 2009). The second assumption is that individuals have to maximize their goals, and the third is the assumption that individuals are self-interest driven (Accomazzo, 2012). According to this theory, individuals are rational beings that are capable of making decisions in a logical, calculating fashion by taking cognizance of the costs and benefits of alternative courses of action.

At the heart of the rational choice theory, all criminal offenders are rational and hedonistic (Brown, Esbensen, and Geis, 2010). They are rational because their behavior is a product of free will. They are hedonistic, their goal is to increase pleasure and/or reduce pain (Jacob, 2011). In other words, the rational choice theory proposes that people who commit crimes do so after carefully weighing the risks of detection and punishment as well as the rewards of successfully carrying out the acts (Gottschalk, 2010; Heidt and Wheeldon, 2015; Shover and Hochstetler, 2006). This theory asserts that as long as the benefits of crime are higher than the cost, the likelihood of crime occurring will be higher, and vice versa. As a result, this theory stipulates that the government can deter a crime, among others, by making the cost of committing a crime higher than its benefits and by imposing stiffer punishment and enforcement.

According to this theory, money laundering is a deliberate and calculated criminal action. The decision to commit money laundering involves rational planning and decision-making, which is designed to maximize personal gains and avoid capture and punishment. Greedy people rationally opt to earn wealth by taking shortcuts, believing that the possible profits far outweigh the probable punishments. To reduce and mitigate the problem of money laundering, this theory suggests tougher punishment and prevention policy for the crime.

Concerning this study, this theory helps the researcher to understand the nature of money laundering, which is a deliberate and calculated act. It also aids the researcher to explain the adequacy of the Ethiopian anti-money laundering regime in preventing and combating it. That is to say, the rational choice theory assists the researcher in examining the loopholes and shortcomings of the Ethiopian anti-money laundering normative frameworks and institutional arrangements in deterring individuals from committing the crime. Though the rational choice theory describes why an individual commits money laundering, it fails to explain the external social and economic factors that contribute to the crime (Fusfeld and Bates, 1984 as cited in Accomazzo, 2012). As a result, the theory of the political economy explanation of crime is considered.

### ***Political economy explanation of crime***

The term political economy has been used by political economists since the 1960s to refer to theories that acknowledge structural forces (such as poverty, discrimination, and racism) and view class struggle and inequality as the brutal results of capitalism (Accomazzo, 2012; Lynch, 2013a, p. 138). When it comes to crime, the political economy explanation of crime is used to explore how the economic and political system influence crime as a social

relationship and as a reflection of class structure and power. In this view, the economic and political system can be interpreted as the driving force that causes crime to emerge in specific forms, and which simultaneously affects the construction and enforcement of the law as a class dynamic and extension of class power relations and conflicts (Lynch, 2013a). The political economy explanation of crime focuses on the key political and socioeconomic factors that sustain crime (Jacob, 2011). The political economy of crime explains the structural factors that produce crime that exist in the economic system and sees the solution to crime in altering the structural conditions that wreak it.

It should be clear that the difference between the political economy explanation of crime and the rational choice theory is their emphasis on structural versus individual-level factors (Jacob, 2011). The political economy explanations of crime involve descriptions of the effect of structural economic and political conditions on crime, which relate to the propensity for crime among a population living within those structural circumstances, and how those structural conditions also generate forms of law and social control that impact the social construction of crime (Lynch, 2013a; Lynch, 2013b). Unlike the rational choice theory, the political economy explanation of crime does not describe why an individual behaves in a given way, but rather is concerned with the general behavioral tendencies or structural conditions impose on collective behavior in a population. In other words, the political economy explanation of crime focuses on the broader sources of the deviant behavior, whereas the rational choice theory focuses on an individual's incentives to commit the crime (Jacob, 2011; Reiner, 2012).

Therefore, the researcher used the political economy explanation of crime to investigate the risk factors that have contributed to the raise of money laundering in

Ethiopia. Specifically, it enables the writer to view the structural factors that exist in the country's economic and political system that contribute to the high prevalence of money laundering, as well as the solutions to those structural conditions. Furthermore, this theory helps to explain the Ethiopian anti-money laundering regime, its relatedness to the international anti-money laundering standards, and its adequacy in addressing the structural factors that cause the problem. This theory, in general, helps the researcher in answering the following two questions. In the existence of legal rules and institutional arrangements to prevent and suppress money laundering, why does money laundering persist in Ethiopia? What are the risk factors that contribute to the growth of money laundering, and how can such factors be altered?

### ***Social network theory***

Changes in the social, political, cultural, and economic arenas of life in the late twentieth century led theorists to suggest that Western societies had reached a condition of 'postmodernity' (Marsh, Melville, Morgan, Norris, and Walkington, 2006). Technological developments in communication and transportation networks facilitate criminal operations to develop global networks and alliances. The old notion of crime being a local issue and problem is replaced with the need to understand 'the global contours of crime' (Marsh *et al.*, 2006).

Scholars such as Abadinsky (2010) and Ruggiero (2017) have embraced the notion of the social network to define a new mode of operation adopted by criminals as well as terrorists. According to the social network theory, criminals get in touch with criminal groups through social relations (Bruinsma and Bernasco, 2004). Abadinsky (2010) noted that networks are an ideal form for organizing criminal activities as they possess several

characteristics that make them particularly appealing to criminals. Networks are flexible and dynamic; they can limit the exposure to risks as networks possess limited fixed assets and higher adaptation than hierarchies. Networks also enable criminals to build flexible alliances with one another, as well as between criminals and corrupt individuals (Abadinsky, 2010; Kleemans, 2014). The nature of criminal networks also explains resilience (Kleemans, 2014). In networks, nobody is irreplaceable; even important persons, such as investors, organizers, and facilitators, can be substituted by others. Perhaps, this is the main reason why criminal networks often seem to suffer little damage from arrests or seizures: links may be lost, but the chain is easily repairable.

In general, according to social network theory, crime, specifically organized crime, is a networked crime, committed in a complex network (Bruinsma and Bernasco, 2004; Kleemans, 2014). Nowhere is this more true than in the world of money laundering, where highly trained, well-equipped teams manage the funds for organized crime, drug cartels, and terrorist groups. Money laundering, in this sense, appears to be composed of parts and elements (criminals, lawyers, bankers, politicians, and entrepreneurs) whose interactions produce outcomes that transcend their specific roles and characteristics (Ruggiero, 2017). The interactions between these different actors change their singular identity, forming a group identity of varying strength, connecting them through practices, experiences, and symbols (Ruggiero, 2017). However, network theory focuses on the *modus operandi* of money laundering, it ignores the motive behind the commission of the crime. Besides, money laundering is not necessarily carried out by criminal networks.

Though the abovementioned theories provide a framework for understanding money laundering, none of them independently explain the issue under study. As a result,

this study employed an *eclectic approach* that blended the rational choice theory, the political economy explanation of crime, and the social network theory. The rational choice theory explains why an individual engages in money laundering, but it fails to explain the contributing factors to the prevalence of money laundering and its *modus operandi*. The political economy explanation of crime can explain the structural factors that underlie money laundering, as well as the patterns and trends in crime control, but it fails to explain the mechanisms of money laundering – how the crime operates. The network theory focuses on the *modus operandi* of the criminal entrepreneurs, but it does not explain the individual factors as well as the wider structural factors that cause the crime.

In sum, the political economy explanation of crime helps to investigate the contribution of the country's political economy to money laundering and pinpoints the prevention of the crime by altering the structural factors. The rational choice theory calls for an accurate legal response, with typical trade-offs: it should deter criminals from money laundering by increasing the costs for such illicit operations. As a result, it will help to examine the adequacy of anti-money laundering measures in deterring criminals from engaging in laundering activities in Ethiopia. Money launderers use criminal networks in two phases: during the commission of the predicate offenses, and to launder the criminal proceeds. Therefore, the network theory enables the researcher to investigate the *modus operandi* of money laundering.

### **1.5.2. Conceptual framework**

Determining the theories that guide this research process enables the researcher to formulate the conceptual framework of this study. This qualitative study broadly focused on money laundering and its countermeasures in Ethiopia. The study looked at the sources

of illicit proceeds, laundering tactics, and causes (risk factors) of money laundering in Ethiopia. The study also includes the ramifications of money laundering, anti-money laundering measures, and their adequacy.

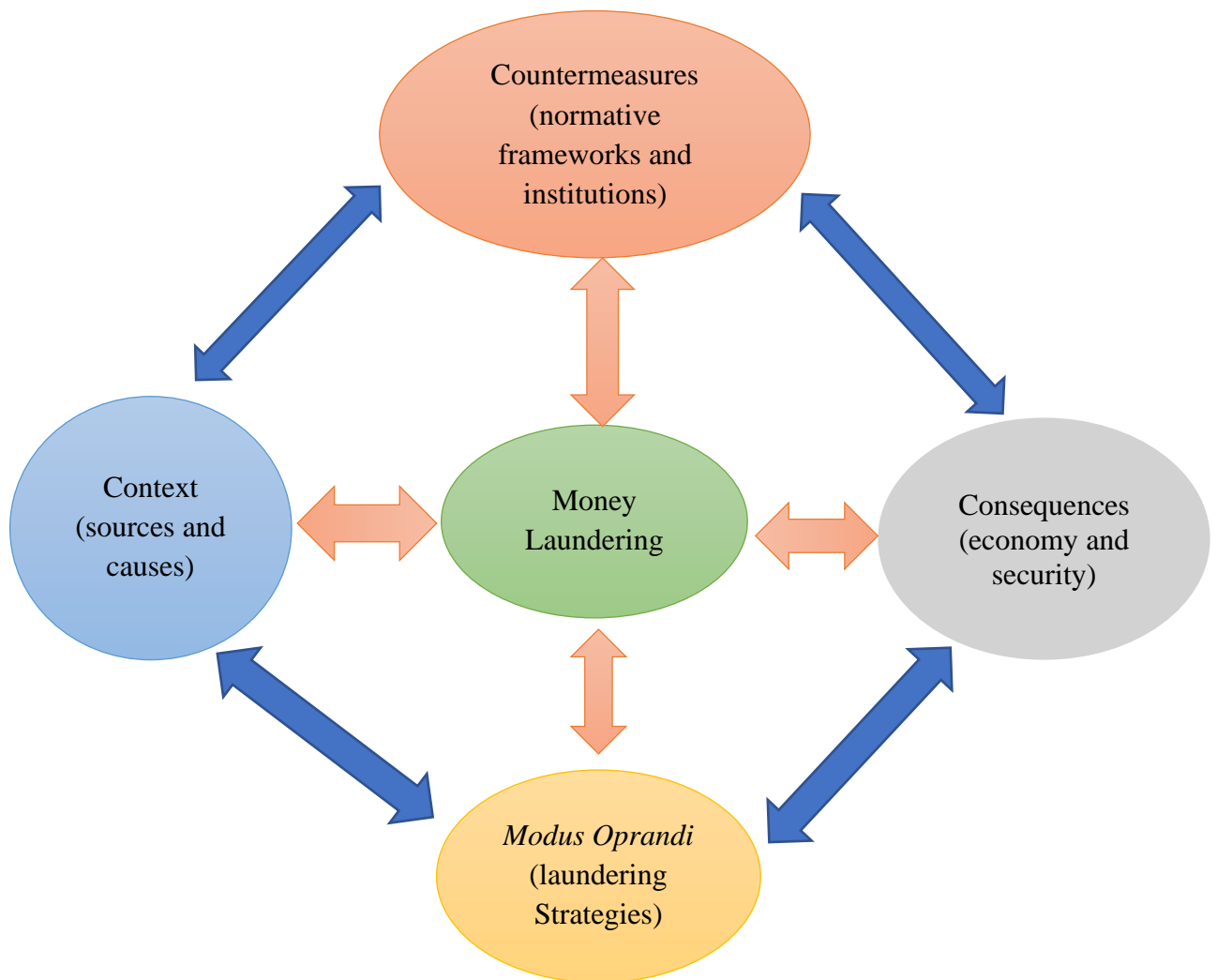
This study begins with an examination of the sources of criminal proceeds, laundering strategies, criminal actors, and the context in which the crime operated. The term “predicate offense” is widely used to describe the sources of criminal proceeds. Criminals engage in the commission of predicate offenses in order to generate illicit proceeds. To utilize the proceeds of crime with a certain level of impunity and to obscure the audit trail, criminals employ several laundering mechanisms.

The political economy of a country will either encourage or deter criminals from engaging in money laundering. In other words, a country's political economy may create an appealing environment for criminals to engage in money laundering or provide a conducive environment for the detection of perpetrators. Aside from the political economy, criminals or criminal groups committed the underlying offenses and laundered the proceeds after weighing the costs and benefits. Furthermore, individuals or criminal groups participate in the commission of the predicate offenses or laundering the proceeds of crime either on their own or as part of a criminal network.

The sources of criminal proceeds, *modus operandi*, actors, and risk factors are initially explored as the foundation of the study. This allows the researcher to have a better understanding of the *actus reas* of money laundering in the Ethiopian legal system. It would also enable the researcher to identify the criminal activities that generate illicit proceeds that are then laundered. The laundering mechanisms are then highlighted, followed by an explanation of the risk factors for the raise of money laundering in the country.

Henceforth, the study looked at the ramifications of money laundering on the country's economy and security. The identification of the sources of criminal proceeds, laundering mechanisms, enabling factors, and their effects led to the examination of anti-money laundering measures (both normative frameworks and institutional operations) and their adequacy. All of the issues examined and explored in this research are intricately linked and interdependent. Thus, the conceptual framework used in this research is depicted on the next page.

Figure 1: Conceptual framework



Developed by the researcher (March 2019)

## **1.6. Significance of the Study**

This study has both policy and academic contributions. First, by identifying the sources of illicit money and laundering strategies, explaining the risk factors for the raise of money laundering, exploring the ramifications of money laundering on Ethiopia's economy and security, and examining the adequacy and effectiveness of the country's anti-money laundering measures; this research assistances policymakers and practitioners to have a better understanding of money laundering and its ramifications, as well as devise appropriate anti-money laundering measures.

Second, as mentioned in the statement of the problem, previous studies conducted on money laundering in Ethiopia are scant and dearth. This study was conducted to fill in the identified gap and ultimately to add a unit of knowledge to the theoretical understanding of money laundering and anti-money laundering measures. The contributions of this study to the theoretical understanding of money laundering and its countermeasures are presented in detail in chapter eight. As explained in chapter eight, this study has contributed to the local and universal knowledge of money laundering and anti-money laundering measures. Locally, to the best of the researcher's knowledge, this study is the pioneer to provide a thorough examination of both money laundering operations and countermeasures in Ethiopia, and as a result, it filled a knowledge gap among local practitioners, policymakers, and academics. Universally, this study adds a unit of knowledge to the theoretical understanding of money laundering and its countermeasures, specifically on the issues of (i) the nature of money laundering strategies, (ii) political economy explanation of money laundering, (iii) anti-money laundering measures in developing economics, and (iv) the nexus between the operations of money laundering and anti-money laundering measures.

Moreover, the study will be used as a reference for future research on money laundering and organized crime.

### **1.7. Scope of the Study**

The study discussed money laundering and its countermeasures in Ethiopia falling in the years between 2004 and 2019. The period of 2004 is a watershed in the development of Ethiopia's anti-money laundering system. In 2004, Ethiopia for the first time enacted a law that criminalized money laundering and associated predicate offenses. Conceptually, this study focused on money laundering and its associated predicate offenses in Ethiopia, as well as the ramifications of money laundering on the country's financial integrity and national security. The study is also conceptually delimited to the laundering strategies, risk factors, and anti-money laundering measures in Ethiopia.

Moreover, under the Ethiopian state structure, the mandate to prevent and suppress money laundering is the mandate of the Federal Government (FDRE, 2013). Hence, this study was conducted on the competent authorities, reporting entities (financial institutions and designated non-financial businesses and professions), and supervisory institutions of the federal government that are indebted to combat money laundering.

### **1.8. Research Design and Methods**

This section deals with the research design and methods that the researcher employed to conduct the study. Specifically, it contains the paradigm and design of the research, participants of the study and sampling strategies, data sources and collection instruments, data analysis procedures, strategies for validating the study, and ethical considerations in conducting the research.

### **1.8.1. Research Paradigm**

A research paradigm is a whole system of thinking that encompasses basic assumptions, the important questions to be answered or puzzles to be solved, the research techniques to be used, and examples of what good scientific research is like (Creswell, 2014; Creswell, 2013; Neuman, 2014; Tracy, 2013). It includes four terms: ontology (the nature of reality), epistemology (what counts as knowledge and how knowledge claims are justified), and axiology (the values associated with areas of research and theorizing), and methodology (strategies for gathering, collecting, and analyzing data) (Creswell, 2013; Denzin and Lincoln, 2018; Tracy, 2013).

This study was conducted based on the interpretivism/constructivist research paradigm. This paradigm enabled the researcher to address the research puzzles from the perspectives of the research participants' views, beliefs, attitudes, and perceptions and to co-create knowledge and understanding (Robson and McCartan, 2016). The researcher chose the interpretivism/constructivist research paradigm based on the nature of the issue under exploration, specifically the research questions and objectives of the study. That is to say, the research questions require an in-depth and confidential investigation of money laundering and associated predicate offenses, laundering strategies and contributing factors to the raise of money laundering in Ethiopia, the ramifications of money laundering to the financial integrity and national security of Ethiopia, and the country's anti-money laundering measures. This necessitates consulting with and following up on the research participants' engagement, experience, and knowledge about the topic under examination. Therefore, using an interpretivism/constructivism research paradigm is an appropriate to address the research problem and to achieve the intended research objectives.

### **1.8.2. Research Design**

Interpretivism is typically thought to be the philosophical foundation of qualitative research design (Creswell, 2014). Qualitative research design mainly focuses on understanding, describing, and discovering the meaning individuals or groups ascribe to a social or human problem (Creswell, 2013; Denzin and Lincoln, 2018; Yin, 2016). Consequently, in conducting this study, the researcher employed a qualitative research design. Specifically, in exploring, describing, and explaining the research questions of this dissertation, the researcher employed a qualitative case study.

A qualitative case study is a research approach that is used to generate an in-depth and multi-faceted understanding of a social phenomenon (Denzin and Lincoln, 2018; Lune and Berg, 2017; Yin, 2014). It helps to investigate the social phenomenon in-depth from multiple perspectives and within its real-world context (Denzin and Lincoln, 2018). Because the nature of the research questions posed in this study requires an extensive and in-depth explanation of the ramifications of money laundering on the country's economic stability and state security, the drivers and facilitators for the raise of money laundering, the laundering strategies, and the adequacy of the countermeasures in dismantling the threat of money laundering, a case study is an appropriate research approach.

### **1.8.3. Research Participants and Sampling Strategies**

#### **1. *Participants of the study***

The participants of this study constitute public institutions that are directly or indirectly engaged in preventing and suppressing money laundering. These include the FIC, Ethiopian Federal Police Commission, Office of the Federal Attorney General, the Ethiopian Customs Commission, the Federal Ethics and Anti-Corruption Commission, and

the National Bank of Ethiopia. Commercial banks and other financial institutions, as well as designated non-financial businesses and professions such as real estate agents and brokers, dealers in precious metals (stones), lawyers, and accountants, are also included as research participants. Moreover, institutions conducting research in the Horn and Eastern Africa on areas of money laundering and other transnational organized criminal activities are incorporated in this study.

This study had a total of 75 participants. The collection of data from these individuals has reached data saturation. I stop collecting the data when I begin to hear the same comments again and again. The following table contains a complete list of the participants:

Table 1: List of research participants

<b>No.</b>	<b>Name of Institution</b>	<b>Number of Participants</b>
1.	Ethiopian Bankers Association	4
2.	Ethiopian Customs Commission	8
3.	Ethiopian Financial Intelligence Center	7
4.	Federal Ethics and Anti-corruption Commission	5
5.	Federal Police Commission	9
6.	Financial institutions	9
7.	Global Center on Cooperative Security	4
8.	Global Initiative against Transnational Organized Crime	3
9.	Intergovernmental Authority on Development	4
10.	National Bank of Ethiopia	8
11.	Non-Financial Businesses and Professions	7
12.	Office of Attorney General	7
	<b>Total</b>	<b>75</b>

## ***2. Sampling strategies***

In this study, the researcher used a non-probability sampling technique, which was primarily purposive and supported by snowball sampling techniques. In purposive sampling, people or other units are chosen, as the name implies, for a particular purpose (Creswell, 2014; Leedy and Ormrod, 2015; Lune and Berg, 2017; Neuman, 2014). The research followed a strategy in which a particular institution or person is purposively selected for their engagement and the important information they have, which cannot be obtained from other sources. For this reason, the researcher selected the competent authorities and regulator institutions such as the FIC, the Federal Police, the Office of Federal Attorney General, the Federal Ethics and Anti-corruption Commission, the Ethiopian Customs Commissions, and the National Bank of Ethiopia (the Central Bank of the country) due to their mandate and engagement in preventing and/or investigating money laundering and its predicate offenses. Those institutions are also engaged in providing licenses, conducting supervision, and taking corrective measures (if they find violations) for financial institutions and certain non-financial businesses and professions. The researcher also chose the commercial banks (1 government and 3 private), other financial institutions (insurances, micro-finances, and money transfer agents), and designated non-financial businesses and professions (real estate agents and brokers, lawyers, and accountants) because they are indebted to comply with the country's anti-money laundering regulations.

Moreover, the researcher purposively selected institutions that conduct research on money laundering and other transnational illicit businesses in the Horn and Eastern Africa region to uncover information about the predicate offenses of money laundering in the

region and its linkage to Ethiopia. Besides, this enabled the researcher to examine the risk factors and laundering strategies of money laundering in Ethiopia and the region.

In general, the researcher selected the abovementioned individuals purposively for their engagement in the implementation of the country's anti-money laundering regulations and the information they have about money laundering and its countermeasures in Ethiopia. Concerning document review, the writer also followed the same strategy—laws, conventions, reports, case files, and recommendations were purposively selected (the list of documents reviewed is found in appendix II of this dissertation). The documents are laws, policies, strategies, and reports of domestic, regional, and international organizations that have directly related to the issues under investigation.

In addition to purposive sampling, the researcher employed snowball sampling. Snowball sampling (also called network, chain referral, and respondent-driven sampling) is a non-random sample in which the researcher begins with one case and then, based on the information about interrelationships from that case, identifies other cases and repeats the process again and again (Neuman, 2014). Therefore, when the researcher conducted an interview with some of the research participants, and when the research participants identified another person that had valuable information about the research topic and problem, the researcher followed snowball sampling to contact and collect information about the research issue.

#### **1.8.4. Data Sources and Collection Instruments**

A hallmark of a good qualitative case study is that it presents an in-depth understanding of the case (Creswell, 2013; Lune and Berg, 2017; Yin, 2014). To accomplish this, the researcher collected many forms of qualitative data from both primary and secondary data

sources. The primary data were collected through in-depth interview and the secondary data was collected from published materials such as reports issued by national and international institutions.

The typical data collection tool for a case study is interviewing individuals who have in-depth knowledge about the situation under investigation (Yin, 2014). Therefore, manageable size of in-depth interviews with 75 research participants was conducted with leaders and experts of the aforementioned participants of the study to access data concerning the issue under study. The nature of the problem under exploration requires a confidential, in-depth investigation and analysis. As a result, an in-depth interview is the best fit for it. Moreover, the researcher critically reviewed documents, such as laws, policy, regulations, directives, and reports, to access additional data concerning the research topic and problems, specifically, to identify the normative frameworks of the Ethiopian anti-money laundering regime, and to examine its adequacy in preventing and combating the threat of money laundering.

#### **1.8.5. Data Analysis Procedures**

Data analysis is understood to include a variety of structured processes for looking across the data set to identify and construct analytic themes and, ultimately, turn those themes into what is commonly referred to as findings that help the researcher to answer his/her research questions (Ravitch and Carl, 2016). Data analysis in qualitative case study research is an iterative process that consists of preparing and organizing the data, then reducing the data into themes through a process of coding and condensing the codes, and finally representing the data in figures, tables, or narratives (Creswell, 2013; Given, 2008; Leedy and Ormrod, 2015; Maxwell, 2013).

In this study, the data collected through in-depth interviews and document reviews were analyzed using a thematic analysis scheme. The organization and management of the data were started as soon as the collection of the data started. The researcher consistently organized and named all data sources and engaged in pre-coding the data. After the data is organized, the researcher had an immersive engagement with the data and developed themes. This encompasses conducting multiple readings of the data, engaging in data analysis strategies including coding, generating themes and categories, and subjecting those themes and categories to scrutiny through validity strategies. Finally, the researcher developed the written and visual presentation of the data and its interpretations.

#### **1.8.6. Strategies for Validating the Study**

The validity and trustworthiness of qualitative research can be measured using four criteria: credibility, transferability, dependability, and confirmability (Ravitch and Carl, 2016, p. 245-246).

To ensure the credibility of this study, the researcher implemented validating strategies such as triangulation sources - collecting multiple forms of data related to the same research question, to find consistencies or inconsistencies among the data, presenting a thick description, having prolonged engagement in the field, using peer debriefs, and having advisers. Transferability is how qualitative studies can be applicable, or transferable, to broader contexts while still maintaining their context-specific richness (Guba, 1981, as cited in Ravitch and Carl, 2016). Thus, to maintain the transferability of this study, the data were described contextually in detail (also called thick description), so, that readers/research audiences could make comparisons to other contexts based on the available information.

The third validating strategy is dependability. It refers to the stability of the data and the relationship between the data and the research questions —how the data collected addresses the research questions (Ravitch and Carl, 2016). So, to ensure the dependability of this study, the researcher prepares a solid research proposal that shows the rationale for the selection of an appropriate data collection plan taking into account the research questions and objectives of the study. Furthermore, based on the objectives and research questions of the study, the researcher developed detailed data collection instruments. Upon the approval of his advisers, the data was collected from the field.

The fourth validating strategy is confirmability. Confirmability is to acknowledge and explore the ways that our biases and prejudices map onto our interpretations of data and to fully mediate those through structured reflexivity processes. Researcher positionality and bias are important aspects of qualitative research that must be scrutinized, problematized, and complicated. Because the researcher is viewed as a primary instrument in qualitative research, he/she must challenge him/herself and be challenged by others in systematic and ongoing ways throughout all stages of the research. Therefore, to achieve confirmability of this study, the researcher employed strategies such as triangulation, researcher reflexivity processes, reducing personal, social, political, or philosophical biases, and supervisors checking.

#### **1.8.7. Ethical Considerations**

In conducting this research, the researcher applied the usual academic ethical considerations in three phases. In the pre-data-collection phase, the researcher secured local permission from the institutions and participants and disclosed the purpose of the study to the participants. Before starting the data collection, interview, the researcher secured

informed consent from all participants who were part of the study, by alerting them about the nature of the study and formally soliciting their volunteerism in participating in this study.

During the data collection phase, the researcher respected the rights and privacy of the research participants. After the data collection phase, data analyzing and reporting stage, the researcher also avoided bias of any form and refrained from data manipulation such as falsifying data, evidence, findings, conclusion, and avoided plagiarism of others' work.

Sometimes, accessing the data was challenging due to the reason that the topic under study is perceived as a sensitive issue. The researcher found ways of dealing with this problem. Therefore, to reduce this problem, the researcher used either gatekeepers or established a good rapport with the institutions and managed and mitigated the threats of the research participants using anonymity. These are common research practices. For instance, Lee (1993) provides that developing a personal relationship is a key element of researching sensitive topics and needs to be acknowledged. Further, Dickson-Swift, James, and Liamputtong (2008, p. 10) stated that "researchers have become particularly adept at assessing and mitigating any threats or harms to the participants that may be inherent in the research".

Generally, in conducting this research, the researcher followed the principles of informed consent, avoidance of harm, and privacy and confidentiality. The researcher respected the privacy of the research participants and abstained from disclosing information that would harm the participants by masking names, developing composite profiles or cases; and communicating in a clear, straightforward, and appropriate language.

## 1.9. Operational Definition of Key Terms

Unless otherwise defined, for this dissertation,

**Anti-money laundering institutional arrangements** refer to competent authorities, regulatory institutions, and reporting entities engaged in the prevention and suppression of money laundering.

**Anti-money laundering normative frameworks** encompass policy, strategies, action plans, road maps, laws, regulations, directives, manuals, and formats enacted by national and international authorities to prevent and suppress money laundering and its predicate offenses.

**Anti-money laundering system/regime** refers to the entire normative framework and institutional arrangement engaged in combating money laundering.

**Competent authorities** refer to institutions that are mandated to receive and analyze financial intelligence reports, investigate and prosecute the perpetrators of money laundering and its predicate offenses, and seize and freeze criminal assets, including financial intelligence units (centers), law enforcement agencies, prosecutorial authorities, and intelligence authorities.

**Designated non-financial businesses and professions** refer to casinos, real estate agents, dealers in precious metals and stones, lawyers, notaries, other independent legal professionals, accountants, and others designated to comply with anti-money laundering legal norms.

**A financial institution** refers to an insurance company, a bank, a micro-finance institution, a capital goods finance company, a reinsurer, a money transfer institution, a digital financial service provider, or other similar institutions.

**Instrumentalities of crime** mean the assets used to facilitate crime, such as a car used to transport weapons and narcotics.

**Know your customer/Customer due diligence** refers to the due diligence and bank regulation activities that financial institutions and other regulated entities must perform to identify their clients and ascertain relevant information pertinent to doing financial business with them.

**A politically exposed person** refers to any natural person who is or has been entrusted with prominent public functions in any country or an international organization as well as a member of such person's family or any person strongly associated with him.

**Proceeds of crime** refer to any economic benefit, financial or otherwise, tangible or intangible, derived from the commission of a crime.

**Reporting entities** refer to financial institutions and certain non-financial businesses and professions obliged to implement anti-money laundering prevention measures, including knowing your customers, customer due diligence, suspicious transaction report, and cash transaction report.

**Laundering Strategy** refers to a mechanism, technique, or method (*modus operandi*) that criminals use to launder the proceeds or instrumentalities of crime.

## **1.10. Dissertation Structure**

The dissertation consists of eight chapters, including an introduction and conclusion. The first chapter covers the introduction of the study. Specifically, it encompasses the background of the study, statement of the problem, objective(s) of the study, research question(s), the significance of the study, and the scope of the study. Research design and methods employed to conduct this study and the conceptual framework of the study are

also parts of this chapter. The second chapter covers the review of the literature of the study. The researcher reviewed relevant literature concerning the conceptual, operational, and empirical issues on money laundering and its prevention strategies. The third chapter covers money laundering and its operation in Ethiopia. This chapter covers the definition of money laundering and its predicate offenses in Ethiopia, the sources of illicit money, and laundering strategies criminals employ to launder the proceeds or instrumentalities of criminal activities.

The fourth chapter answers the question of why money laundering has grown and expanded in Ethiopia. This chapter deals with the risk factors that contribute to the rife of money laundering in the country. Chapter five examines the ramifications of money laundering on Ethiopia's economy and security. Chapters six and seven have discussed the countermeasures taken by the government of Ethiopia to prevent and suppress the threat of money laundering. The countermeasures are discussed in two aspects: normative frameworks and institutional operations. Thus, the researcher examines the country's anti-money laundering legal norms and institutions, and their adequacies in preventing and suppressing the threat. The last chapter, chapter eight, provides the conclusion with its academic and policy implications.

## **CHAPTER TWO**

### **MONEY LAUNDERING AND ITS COUNTERMEASURES:**

#### **A LITERATURE REVIEW**

##### **Introduction**

One of the primary objectives of a group of criminals, organized crime, or terrorist groups that commit acquisitive crimes is to acquire funds and amass wealth and power (Alhosani, 2016; Durrieu 2013). The accumulation and investment of funds derived from crime promote the expansion of organized criminal enterprises. To avoid detection and prosecution and/or, among other reasons, to enjoy, save and reinvest the accumulated proceeds of crime in legitimate businesses, criminals practice the so-called process of money laundering, which could occur in many places across the world.

Under this chapter, the researcher reviews literature cognate to the issue under study. Specifically, the researcher examines the previous work in the area to determine which variables should be considered, as well as identifies the relationship among variables and shows the necessity of this study by identifying the gaps of previous studies. Therefore, in this chapter, the researcher reviews literature concerning the conceptual foundation of money laundering, stages of the laundering process, money laundering strategies, and anti-money laundering measures at international, regional, and sub-regional levels.

## **2.1. Understanding Money Laundering**

### **2.1.1. Definition of Money Laundering**

Though money laundering is a critical problem, there is no unanimously agreed definition. A variety of definitions have been suggested depending on whether you are looking at it from a legal, economic, security, or social perspective. The debate on whether money laundering is a concealment process, the process of creating a veil of legal cleanliness, or enjoyment of the outcome of the process added further complexity for not having a unified definition. The researcher has reviewed several definitions of money laundering proposed by different scholars, and multilateral bodies; and then presents a workable definition of money laundering used throughout this thesis.

International organizations such as the FATF, international legal norms comprising the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 (Vienna Convention) and the UN Convention against Transnational Organized Crime of 2000 (Palermo Convention), and scholars including Gallant (2005), Kumar (2012), and Reuter and Truman (2005) have defined money laundering as the process of concealment of the proceeds or instrumentalities of crime. Specifically, the FATF (2018c), defines the term money laundering as the process of ... criminal proceeds to disguise their illegal origin. The UN under the Vienna and Palermo Conventions has defined the *actus reas* of money laundering as (i) the conversion or transfer of property, knowing that such property is the proceeds of crime, or (ii) the concealment or disguise of the true nature, source, location, disposition, movement, or ownership of or rights for property, knowing that such property is the proceeds of crime. In a similar line of argument, Gallant (2005) has explained money laundering as the process of concealing the origins of revenues linked

to criminal activities. In almost identical terms, Reuter and Truman (2005, p. 1) have defined money laundering as “the conversion of criminal incomes into assets that cannot be traced back to the underlying crime.” Moreover, Kumar (2012, p. 113) explains money laundering as “the conversion of black money into white money”. Arguably, a complete money laundering scheme has three processes: placement/concealment, layering/convertng, and integration. Thus, defining money laundering as a concealment process of illicit proceeds does not show the whole purpose and picture of money laundering.

Money laundering has been defined by scholars such as Durrieu (2013), Masciandaro (2007), and Stessens (2003) as not only a concealment process but also as an investment/enjoyment of the proceeds of crime. For instance, Stessens (2003, p. 83) has defined money laundering as “a process by which one expects to conceal the criminal origin of assets and to ensure that the criminals can ‘enjoy’ their proceeds, by consuming or investing them in the legal economy”. Durrieu (2013, p. 18) also stated that:

[A] complete money laundering process can be described as a renewed and autonomous activity by which a person conceals, disguises, transfers, consumes, invests, saves, or in any other way integrates ill-gotten assets in the legitimate and formal market so that the original funds or the substitutes thereof can be transformed in legally gotten assets.

Masciandaro (2007, p. 2) defined money laundering as “an autonomous criminal economic activity whose essential function lies in the transformation of liquidity of illicit origin, or potential purchasing power, into actual purchasing power usable for consumption, saving, investment or reinvestment”. Moreover, the UNODC and the IMF, and scholars like Hinterseer (2002), Leong (2007), and Unger (2007) have defined money laundering as the process of creating a veil of legal cleanliness around the illicit object.

From the aforementioned definitions, the researcher understands that even though there are varieties of definitions of money laundering; for this study, money laundering is defined as a process of concealment or camouflaging the true origin of ill-gotten assets to create a veil of legal cleanliness around the object to enjoy such object by investing, consuming or saving in the legitimate economy with a certain level of impunity and anonymity. According to this definition, the process of money laundering has two main objectives. The primary objective is the concealment and conversion: to separate the financial flows from their criminal origin and conceal or convert the identity of illegally obtained proceeds in the legal economy so that they may appear to have originated from legitimate sources. The secondary objective is cleaning, enjoying, or investing: to consume, save, or invest the accumulated criminal assets in the legal economy as any other honest and ordinary person or entrepreneur. This is creating a veil of legal cleanliness around the object. Hinterseer (2002) argued that this veil not only prevents the object associated with the unlawful activity from being accurately tracked and identified but also enables the object to be used in the legal economy with anonymity and without fear of criminal, civil, or equitable legal sanction. When the ill-gotten gains (black money) intermingle with legitimate (white) monies, it becomes almost impossible to distinguish the lawful from the unlawful (Zoppei, 2017). Then, in this context, money laundering allows the individual(s) or organization(s) that committed the predicate offense(s) to control and consolidate their economic power in a legal and regulated market, with a certain level of impunity and secrecy.

### **2.1.2. Predicate Offenses of Money Laundering**

Since money laundering is an epicenter of illicit businesses and the only way to be able to use one's ill-gotten gains in the legal economy, it is necessary to commit two autonomous criminal acts (with both its probability of conviction and sentence) to profit from criminal behavior: the crime itself and laundering of the proceeds of the crime (Ferwerda, 2009). The first crime that produces proceeds is called a predicate offense. Schott (2006, p. 3) has defined a predicate offense for money laundering as "the underlying criminal activity that generates proceeds, which when laundered, leads to the offense of money laundering". In a similar vein, Durrieu (2013, p. 23) stated that "the term predicate offense refers to any criminal offense as a result of which profits, economic values or property were acquired or generated". Then, based on this, it could be deduced that 'criminal assets' can be derived from the commission of any type of predicate offense that generates revenue.

The first international effort against money laundering was contained in the Vienna Convention of 1988. However, the Vienna Convention is an international drug control instrument and the predicate offense for money laundering relates only to drug trafficking offenses (UN, 1988). This definition excludes non-drug trafficking crimes such as fraud, kidnapping, and theft from the domain of predicate offenses. Over the years, however, the international community has developed the view that predicate offenses for money laundering should go well beyond drug trafficking to activities such as trafficking and smuggling of human beings, sexual exploitation, illicit arms trafficking, and illicit trafficking in stolen goods. The Palermo Convention, for instance, imposes an obligation on all state parties to apply the Convention's money laundering offenses to "the widest range of predicate offenses" (UN, 2000, p. 8). These predicate offenses, as stipulated in

Art. 2(b), would include at least all serious crimes which are punishable by a maximum deprivation of liberty of four years, or more serious penalties (UN, 2000). Furthermore, the FATF stipulated that predicate offenses should be “based on serious offenses” (FATF, 2012-2019, p.10). However, neither the Palermo Convention nor the FATF defined in any detail what constituted the widest range of predicate offenses or serious offenses. The scope of predicate offenses was left to the judgment of each country; subject only to the Vienna Convention’s requirement that drug trafficking should be a predicate offense. Countries have a discretionary power to determine the predicate offenses of money laundering by conducting a country-specific national risk assessment. This signifies that one country’s vulnerability to a predicate offense of money laundering is different from that of other countries.

The FATF provides four approaches that countries can adopt concerning predicate offenses (FATF, 2012-2019, p. 32). The first approach is that “all offences basis” means that all crimes are considered predicate offences for money laundering under domestic law, as the United Kingdom (UK) system recognizes. The second approach is to use a “threshold”, in which a threshold is connected to either the punishment of imprisonment applicable to the predicate offence or a group of serious offences. The third and fourth approaches, respectively, are to list exhaustively all predicate offences or to use a combination of the three approaches. To countries that apply the second approach, FATF recommends either to include all offenses that fall within the category of serious offenses under their national law, or punishable by a maximum penalty of more than one year’s imprisonment, or by a minimum penalty of more than six months imprisonment (for those countries that have a minimum threshold for offenses in their legal system).

Even though FATF leaves the decision on the range of offenses to be covered as predicate offenses to each country based on its domestic law and national risk assessment, it has designated 20 offenses as predicate offenses of money laundering<sup>1</sup> (FATF, 2012-2019, p. 113&114).

### **2.1.3. The Money Laundering Process**

Criminals engage in money laundering to ensure the secure ownership of the proceeds and to shield the proceeds from suspicion, investigation, and seizure by obscuring the illicit nature, origin, existence, ownership, location, or application of proceeds of crime (Alhosani, 2016; Borlini, 2014). In the same vein, Levi and Reuter (2006, p. 289) noted that “people who commit serious crimes for economic gain seek not only to evade imprisonment but also to enjoy the fruits of their crimes”. To attain these objectives, criminals have devised highly sophisticated money laundering processes. Even though money laundering can be conducted in various ways or phases, international organizations such as the UNODC, the World Bank, and the IMF (2005), have developed three sequential stages of money laundering. These are placement, layering, and integration.

According to Chapman (2018), placement is the initial phase in the laundering process, where the proceeds of crime are injected. The proceeds are invested in the retail economy or deposited into traditional or non-traditional financial institutions. The aim of this laundering maneuver is to separate the assets from their source by at least one step. In this stage, the laundering techniques involve the physical movement of currency or other funds derived from illegal activities to a place or into a form that is less dubious to law enforcement authorities and more convenient to the criminals (Cassella, 2018). Borlini (2014), Schott (2006), and Sullivan (2015) also identified smurfing and structuring

(breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into banks or other financial institutions), or purchasing a series of negotiable instruments that are then collected and deposited into accounts at another location as money laundering techniques applied during the placement stage. In addition, Durrieu (2013) identified the movement of cash outside the area where the assets have been generated, accumulated, or immediately retained as another mechanism in this first stage of the process. According to Irwin, Choo and Liu (2012), in this stage, the proceeds of crime are most visible and at the highest risk of detection. In a similar vein, Levi (2014, p. 421) stated that “it is only here when there is a clear connection between the money and the crime itself”. After the funds have entered the financial system and/or have been moved, transferred, or physically separated from the area where the assets have been generated, accumulated, or immediately retained the second (layering) stage takes place.

In the layering stage, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The goal of this is to disassociate the illegal money from the source of the crime by purposefully creating multiple complex financial transactions aimed at concealing any audit trail and the source and ownership of funds (Cox, 2014; Irwin *et al.*, 2012). In this stage, criminals use several techniques including among others: correspondent banking, bank checks, collective accounts, payable-through accounts, loans at low or no interest, back-to-back loans, fake invoices, fake insurances, fictitious sales and purchases, using shell companies, and abusing trust offices or special purposes entities (Cox, 2014; Sullivan, 2015).

Having successfully processed the criminal profits through the first two phases the launderer then moves them to the third (integration) stage in which illicit money is mingled

with licit finance thereby making criminally derived wealth appear legitimate. Integration of the cleaned money into the legitimate economy is the final stage of the process and is accomplished by the launderer making it appear to have been legally earned. As Irwin *et al.* (2012) rightly said, it is extremely difficult to discern between legal and illegal wealth at the integration stage. During the integration stage, illegal proceeds are converted into apparently legitimate business earnings through normal financial or commercial operations. Then the launderer enjoys such assets by investing, consuming, or saving them in the legal economy. The process is portrayed figuratively as follows:

Figure 2: Money laundering process



Source: Alldridge (2008, p. 441)

The figure emphasizes the complexity, the sophistication, the international element, and the glamour of laundering. It is worth mentioning that in practice, not all money laundering processes involve all three stages; some may involve more or less. For instance, in countries with a cash-intensive economy, illicit money is laundered without passing the three stages. Also, these stages can be separate and distinct, but more often some of them are conducted simultaneously or overlapping. This revealed that the money laundering process is highly context-specific.

## **2.2. Money Laundering Strategies**

The practice of collecting, hiding, and converting ill-gotten funds, or illegally disguising legitimate monies from the taxman or law enforcement officer, is not new. It has taken one form or another for thousands of years as highly motivated merchants moved their wealth beyond the confiscatory grasp of local rulers (Serio, 2004). Only in the recent past has the name money laundering been given to this financial sleight of hand. Money laundering involves a constant struggle between the launderers who seek the paths of least resistance and lowest risk, and governments and law enforcement authorities who seek to detect, disrupt, and prevent the completion of the laundering cycle.

Schott (2006) noted that launderers are highly creative - when overseers detect one method, the criminals soon find another. Sullivan (2015) also argued that launderers constantly seek new ways to circumvent regulation and minimize the likelihood that the funds from the predicate offenses will be subject to seizure. The advent of globalization with its technological innovation and its integration within the financial markets has provided criminal entrepreneurs with new opportunities to disguise and conceal the proceeds of their illicit acts and to invest, save, and consume it in the legitimate economy.

Even though the money laundering techniques are diverse and dynamic, FATF (2006) has declared that there are three broad categories to hide illicit funds and introduce them into the formal economy. These are the use of financial institutions, through physically smuggling of bulk cash from one country or jurisdiction to another; and the transfer of goods via trade–trade-based money laundering. The patterns of money launderers also revealed criminals laundered the proceeds of their criminal activities through the concealment of beneficial ownership, virtual currencies, financial securities market, alternative remittance system, and precious metals and stones. It is also worth mentioning that certain non-financial businesses and professionals such as accountants, lawyers, and non-profit organizations would wittingly or unwittingly engage in laundering the proceeds or instrumentalities of crime. However, in this section, the researcher examined certain money laundering strategies, specifically money laundering through financial institutions, cash smuggling/cash couriers, precious metals and stones, alternative remittance systems, financial securities market, virtual currencies, and trade-based money laundering.

### **2.2.1. Money Laundering through Financial Institutions**

Money laundering through financial institutions appears to be the most popular mechanism because of its numerous advantages. Ping He (2010) noted that banks with their principles of banking secrecy can provide multiple services to dispose of criminal proceeds safely, such as deposits, loans, acceptances, discounts, settlements, and foreign exchange services. Ping added that with the help of financial institutions, criminals wittingly or unwittingly transfer capital through transferring accounts or remit funds into other countries and eventually cover up or conceal the nature or source of the illegally obtained proceeds. The

funds can be transferred promptly through various convenient ways through both domestic and overseas banking institutions, such as using internet banking, mobile banking, and automatic teller machines (ATMs). Sarigul (2013) mentioned the typical mechanisms of money laundering through financial institutions. These are the use of accounts in false names, opening multiple accounts in the names of multiple persons, businesses, or shell companies, or the name of the person operating on behalf of some other beneficiary.

Finally, it is worth noting that financial institutions knowingly or unknowingly engaged in laundering the proceeds or instrumentalities of illicit activities. Due to this fact, in the last three decades, the anti-money laundering policies at the international and national levels provide a primary focus on the regulation of the financial institutions from exploitation by launderers. Financial institutions, specifically, banks are required to undertake money laundering prevention measures including conducting money laundering risk assessment, pursuing a risk-based approach, Know Your Customer (KYC), Customer Due Diligence (CDD), Suspicious Transaction Report (STR), and Cash Transaction Report (CTR). This creates the substitution of laundering of the proceeds of crime by other mechanisms. Criminals seem to switch from the more controlled banking sector into still less controlled parts of financial markets, and from financial markets to other sectors. The sectors are including among others, electronic payments, physical transportation of cash, fake invoicing of exports and imports and other forms of trade-based money laundering, and the real estate sector (FATF and Middle Eastern and North African Financial Action Task Force [MENAFATF], 2015; Unger & Hertog, 2012).

### **2.2.2. Money Laundering through the Physical Transportation of Cash**

Cash exists long before the advent of modern banks and other financial institutions which have become an integral and indispensable part of modern life. As Europol (2015) stated, despite the proliferation of financial institutions, cash is still the preferred method of settlement for goods and services. Ping He (2010) and Reuter and Truman (2005) added that cash is still widely used in the criminal economy, and it remains the raw material of most criminal activity. It is worth mentioning, that cash remains an instrument of choice for criminal payments and money laundering purposes. Cash is a bearer negotiable instrument—it belongs to the person who holds it while providing no information about its origin. It is difficult to ascertain the source of cash and impossible to know the intended beneficiary (Europol, 2015). This would help criminals to launder the proceeds of crime effortlessly.

The FATF and Middle Eastern and North African Financial Action Task Force (MENAFATF) (2015, p. 6) stated that the “physical transportation of cash (i.e., bulk cash smuggling and cash couriers) across an international border as a means of money laundering continues to be a problem in many countries worldwide”. Recommendation 32 of the FATF standards and associated interpretive note, define physical cross-border transportation of cash as “incoming and outgoing cross-border transportation of currency or bearer negotiable instruments” from one country to another country” (FATF, 2012-2019, p. 102). The term includes physical transportation by a natural person or in that person’s, accompanying luggage or vehicle; shipment of currency or bearer negotiable instruments through containerized cargo or the mailing of currency or bearer negotiable instruments by a natural or legal person (FATF and MENAFATF, 2015; Sullivan, 2015). As Sullivan

(2015, p. 17) stated, “most recently, money launderers have made use of domestic wire transfers to move the bulk cash to a transfer point close to a national border”. This is done to alleviate the possibility of the cash being detected by law enforcement as it travels the highways across the country, and it also saves much time. From there the money is then physically transported across the border. It is an issue that concerns both developing countries with cash-based economies as well as countries with developed and sophisticated financial systems.

In many cases, even when the proceeds of a crime are initially generated in electronic form (such as the theft of funds from a bank account), criminals choose to withdraw the funds from a bank account in cash, transport it to another country, and pay it into another account to break an audit trail (FATF and MENAFATF, 2015). The reason is that the proceeds of crime are mostly cash initially, therefore cash smuggling is a simple way for the criminals to evade tracing by the authorities (Ping He, 2010). It is also an effective way by which the ties connecting the proceeds of crime and their illegal origin would be cut off or at least blurred. It is worth mentioning that cash smugglers usually need to change the small denomination of cash to a large denomination to reduce the size of the money, which can be conveniently smuggled by the carriers.

Physical transportation of cash as a method of money laundering is not restricted to a particular crime. It is linked to all crimes that produce illicit proceeds. Even though many jurisdictions have linked this laundering mechanism to drug trafficking, it is also linked to other predicate offenses such as tax fraud, weapons smuggling, human trafficking, and migrant smuggling (FATF and MENAFATF, 2015).

To bring the money through customs smoothly, the smugglers tried every possible method. The methods used to physically transport criminal cash are dependent on a decision-making process undertaken by the criminal. This process begins with the criminal deciding what the purpose of the cash movement is (for example, to break the audit trail, to pay a supplier, to bank it in another jurisdiction, etc.). This dictates the ultimate destination, which, in turn, informs the method used, and ultimately the route is chosen. At all stages, influences such as risk, familiarity, simplicity, and the demands of partners affect the decisions made. Understanding the decision-making process can assist in developing control techniques by authorities tasked with combatting the problem. Once the cash has been moved to its destination and used for its intended purpose it eventually enters the legitimate financial system and would be recycled by banks and other financial institutions.

### **2.2.3. Trade-based Money Laundering**

Trade-based money laundering has been identified as one of the newest and possibly most complex forms of money laundering (Naheem, 2015). It is a relatively unknown form of crime that is used to let illicit money pass borders unnoticed. FATF (2006, p. 3) defined trade-based money laundering as, “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins or finance their activities”. Moreover, trade-based money laundering techniques vary in complexity and are frequently used in combination with other money laundering techniques to further obscure the money trail.

Scholars like Soudijn (2014) argue that the FATF definition of trade-based money laundering is ambiguous and contains inconsistencies and undeveloped terms. The author pinpoints that the word “trade” is unclear whether it refers to international or national trade;

the word “trade transactions” lacks clarity; does the term “trade-based money laundering” refer to trade in goods or services? This also lacks clarity (Soudijn, 2014, p. 233). Nevertheless, trade-based money laundering revolves around invoice fraud and associated manipulation of supporting documents (Cassara, 2016; Ferwerda *et al.*, 2013; Sullivan and Smith, 2011). When a buyer and seller work together, the price of goods (or services) can be whatever the parties want it to be. There is no invoice police; anything that can be priced can be mispriced. False pricing is done every day, in every country, on a large percentage of import and export transactions (Cassara, 2016). This is the most used technique for generating and transferring dirty money.

FATF (2006) concludes that trade-based money laundering represents an important channel of criminal activity and given the growth of world trade, an increasingly important money laundering and terrorist financing vulnerability. The primary techniques used for invoice fraud and manipulations are over-and under-invoicing and shipments of goods and services, multiple invoicing of goods and services, falsely described goods and services, short shipping<sup>2</sup>, over shipping<sup>3</sup>, and phantom shipping<sup>4</sup> (Cassara, 2016; FATF, 2006; Ferwerda, *et al.*, 2013). From these techniques, we can extrapolate that trade-based money laundering lies squarely where there is a misrepresentation of price, quantity, or quality of imports or exports. Scholars argued the successive measures taken to curtail the problem of money laundering in financial institutions resulted in the unintended effect of boosting the attractiveness of the international trade system for money laundering (Cassara, 2016; Soudijn, 2014). Such a shift from one technique to another is known to criminologists as a form of crime displacement.

Furthermore, the globalization of capital markets has presented a great opportunity for money launderers. Foreign direct investment (FDI) facilitates money laundering, especially in transitional economies. For example, the establishment of foreign companies constitutes a movement of capital from the home country to the host country that may be commingled with criminal assets. Thus, FDI may disguise an investor's illicit assets. The typologies of trade-based money laundering can be used when laundering criminal funds through FDI.

#### **2.2.4. Money Laundering through Precious Metals and Stones Smuggling**

This is one of the oldest traditional money laundering mechanisms but is still in use. Precious metals and stones are attractive to criminal syndicates due to (i) their market is cash-intensive, and (ii) the anonymity generated from the properties of precious metals and stones which make tracking their origins very difficult to do (FATF and APG, 2015). Moreover, precious metals and stones attract money launderers because of their distinct advantages: their high intrinsic value, their convertibility, and the potential anonymity of the parties engaged in transactions. By this mechanism, the proceeds of crime in the form of precious metals and stones are covertly moved across the border and then deposited in banking institutions, invested in the legal business, and used to purchase real estate.

#### **2.2.5. Money Laundering through Alternative Remittance System**

The formal and informal remittance systems are being abused by money launderers. An alternative remittance system (ARS) also known as “informal funds transfer”, “underground banking system”, “informal remittance center” or “parallel banking system” (Chêne, 2008; FATF, 2003). ARS are informal banking arrangements that allow funds to be transferred both domestically and internationally without using formal financial

institutions (Chêne, 2008). They are primarily used by overseas migrant workers sending remittances to their families in their home countries, since they are cheap, fast, and trustworthy money transfer channels (Farooqi, 2009). Remittances are important sources of income for many impoverished households and may play an important role in fostering growth and development. However, in the aftermath of 9/11, there has been growing concern about their potential role in money laundering. As they are anonymous and require minimal documentation, they can be easily abused by criminal organizations, such as terrorist groups to conceal the proceeds of criminal activities or corrupt officials to launder the proceeds of corruption.

ARS offers many advantages for money launderers to transfer and disguise the proceeds of crime. For example, ARSs can successfully disguise the audit trail of criminal proceeds because of the absence of bureaucratic procedures in paperwork found informal financial transaction systems. Also, money launderers have developed numerous sophisticated typologies to launder the criminal proceeds through ARSs, such as using digital currency created as a medium of exchange on the Internet.

#### **2.2.6. Money Laundering through the Financial Securities Market**

The financial securities market played a key role in the world economy. However, criminals exploited this sector to launder the proceeds of criminal activities derived both inside and outside of the sector (FATF, 2009). That is to say, the financial securities market is unique, in that it may be utilized to launder illicit funds obtained elsewhere, and to generate illicit funds within the industry. Insider trading, securities fraud, and market manipulation are examples of predicate offenses that can result in illicit funds being gained within the sector (FATF, 2009).

The financial security market can be used for all money laundering stages; however, it is most commonly used for the layering or integration stage. The most common money laundering typologies in this sector are the acceptance of cash payment in the securities market by unscrupulous securities market professionals (placement stage); the purchase of securities with criminal funds that have already been introduced into the financial system (layering stage); and the formation of legitimate public companies as a front for money laundering operations and then using the companies to co-mingle criminal proceeds with legal trade activities (integration stage) (FATF, 2009).

### **2.2.7. Money Laundering through Virtual Currencies**

In ancient societies, individuals conducted trade by barter, an exchange of an item for an item. Through time currency emerged to play a dominant role in world trade. In addition to coins and paper currency, several types of negotiable instruments have also been used in the exchange of items. Gradually, due to the advent of globalization and information technology, currency notes started to be replaced by electronic currency, e-money. In line with this, credit cards, debit cards, automated electronic payments, point of sale machines, mobile banking, and internet banking are currently facilitating transactions. More recently, specifically after the world economic crisis of 2008, the issue of cryptocurrencies has become an agenda in the international arena (Brown, 2016).

There are numerous definitions of virtual currencies; however, this thesis utilized the definition provided by FATF. FATF defines virtual currency as “a digital representation of value that can be digitally traded and functions as (i) a medium of exchange; and/or (ii) a unit of account; and/or (iii) a store of value but does not have legal tender status in any jurisdiction” (FATF, 2014, p. 4). Virtual currency is distinguished from fiat currency (real

currency or national currency). The fiat (sovereign) currency is the coin and paper money of a country that is designated as its legal tender circulates and is customarily used and accepted as a medium of exchange in the issuing country. The digital representation of fiat currency is e-money. This is used to “electronically transfer value denominated in fiat currency” (FATF, 2014, p. 4).

Virtual currencies have revolutionized the financial world by creating a form of currency that is not backed by any government and allows encrypted, and anonymous transactions (Albrecht, Duffin, Hawkins, and Rocha, 2019). By nature, virtual currencies allow direct peer-to-peer transactions and eliminate the need for a bank or other intermediary to facilitate financial transactions (Peters and Panayi, 2015). There are different types of virtual currencies. Some virtual currencies are convertible while others are non-convertible.<sup>5</sup> Also, virtual currencies could be either centralized or decentralized (FATF, 2014; Vandezande, 2017).<sup>6</sup> Cryptocurrencies are decentralized and convertible virtual currencies that are protected by cryptography (Houben and Snyers, 2018).<sup>7</sup> These currencies are convertible to fiat currencies but unlike fiat money, they are not administered and issued by a central authority. The ultimate objective of cryptocurrencies would be to become a payment system substituting, complementing, or competing with conventional payment systems.

In the previous decade, the market of cryptocurrencies was developed very swiftly. According to the Coinmarket Cap estimation, as of March 2021, there are more than four thousand types of cryptocurrencies (Coinmarketcap, March 19, 2021). However, among several thousand cryptocurrencies, in terms of market capitalization, Bitcoin is the most popular and largest cryptocurrency (Nabilou, 2019). By the same token, Bitcoin is a unique

cryptocurrency that is widely considered to be the first of its kind and it is increasingly drawing the attention of regulators in charge of banking and payment institutions.

Cryptocurrencies have their benefits and downsides. The main benefits of cryptocurrencies are easier to transfer funds between two parties in a transaction, these transactions are facilitated using public and private keys for security purposes, these transfers are done with minimal processing fees, and allowing users to avoid the steep fees charged by most banks for internet online-based transactions (Bunjaku, Gjorgieva-Trajkovska and Miteva-Kacarski, 2017).

The challenges of cryptocurrencies are related to their vulnerability to several nefarious activities. Though arguable, some scholars such as Kfir (2020) and Butler (2019) argue that criminals are uninterested in cryptocurrencies due to (i) cash is still a king in the criminal economy and it is working well enough for them, (ii) lack of skills necessary to exploit cyber means for criminal purposes, and (iii) the use of cryptocurrencies in the conflict-affected area—a haven for criminals and terrorist is a colossal challenge. The argument also centers on the fact that fiat money is more available for criminals than virtual money.

However, scholars including Wegberg, Oerlemans, and Deventer (2019), and multilateral bodies such as FATF (2014) argue that cryptocurrencies are susceptible to several types of nefarious activities such as money laundering, terrorist financing, fraud, and other cybercrimes. The FATF, specifically noted that it is a colossal challenge to apply the money laundering prevention measures such as customer due diligence (CDD) or know your customers (KYC) to transactions conducted using cryptocurrencies. So, this increased the susceptibility of the cryptocurrency payment system to several nefarious activities.

Moreover, the characteristics of cryptocurrencies including decentralization, anonymity, and being unregulated make them extremely vulnerable to criminality (FATF, 2014). Specifically, cryptocurrencies are straightforward to use, relatively anonymous, and their use is unimpeded by borders or legislation and therefore, are becoming the currency of choice for many criminals (Kethineni and Cao, 2019; Wegberg, Oerlemans, and Deventer, 2019).

Several high-profile investigations and prosecutions suggest that cryptocurrencies are used to commit several nefarious activities (Birch, January 10, 2021; Dupuis and Gleason, 2020). Criminals used cryptocurrencies to buy and sell illegal drugs and firearms on the Dark Web<sup>8</sup>, and payment for ransomware (Popper, January 28, 2020; Turner and Irwin, 2018). Criminals also used cryptocurrencies to launder the proceeds of crime in two ways (i) they could buy cryptocurrencies using the proceeds of crime, or (ii) changing cryptocurrencies into fiat money (cash-out strategy) (Irrera, December 9, 2020; Wegberg, Oerlemans, and Deventer, 2019).

Several law enforcement agencies have investigated the misuse of Bitcoins and their facilitation of criminal activity. The FBI considers the anonymous Bitcoin payment network to be an “alarming haven for money laundering and other criminal activity” (Zetter, September 05, 2012). As far back as 2012, the FBI was expressing concerns about the difficulty of tracking the identity of anonymous Bitcoin users and demonstrating how law enforcement agencies were having trouble in identifying suspicious users and obtaining records for Bitcoin transactions. Unfortunately, these difficulties are still present with law enforcement agencies, especially in third-world countries.

Finally, it is important to note that money laundering is a very dynamic and innovative criminal industry that its *modus operandi* is broadening from time to time. In this vein, Unger and Hertog (2012, p. 288) rightly stated that “laundered money seems to move like water, which always finds its way through stones and other hindrances”. Thus, it is worth noting that the money laundering industry is both innovative and highly dynamic. Money laundering is a dynamic criminal business in which criminals frequently switch their *modus operandi*. Proceeds of crime are also laundered through other channels, such as the insurance sector, the real estate sector, and the casino and gambling sector. Furthermore, professionals such as lawyers and accountants are providing services to criminals and criminal syndicates by laundering the proceeds of their illegal activities (FATF, 2018d).

### **2.3. Combating Money Laundering: International and Regional Responses**

Money laundering is becoming a cross-cutting issue at both national and international levels and cannot be limited to a single policy area. Money laundering has tangible and substantial costs for society. At the same time, the globalization of, and integration within, financial markets in conjunction with technological innovation have meant that the problem can be transmitted quickly throughout the international financial system (Borlini, 2014). Alldridge (2008, p. 438) stated that “more than any other, money laundering reflects and energizes globalization”. The advent of globalization, specifically the enhancement of information technology enables money laundering to become transnational or borderless.

Money laundering compromises the integrity of the financial system and the national security of countries. International organizations and their member countries are taking measures to prevent and suppress the menace of money laundering. Thus, in this

sub-section, the researcher reviewed the literature on the rationale for combating money laundering, the pillars of the anti-money laundering regime, and the international and regional anti-money laundering systems.

### **2.3.1. Why International and Regional Responses?**

Money laundering is a phenomenon that must be curbed with an iron hand. However, there is no consensus in the academic literature about the reasons for combatting money laundering. International and inter-governmental organizations such as FATF, IMF, World Bank, UNODC, the Basel Committee on Banking Supervision, the International Association of Insurance Supervision, and the International Organization of Securities Commission agreed that money laundering should be prevented and suppressed since it has a negative influence on the financial sector, and more broadly, on the economy. This claim was supported by several scholars such as Aluko and Bagheri (2012), Durrieu (2013), Ferwerda (2013), McCarthy (2018), and Sullivan (2015). These scholars add a second reason for taking legal actions against money laundering at the international level: the process of laundering proceeds of crime allows criminals and organized crimes to consolidate their economic power in the legitimate economy. According to these scholars, money laundering must be tackled to halt the economic power of criminals. Stessens (2003) also agrees with the preceding reasons, but he adds a third reason that money laundering should be prohibited because it interferes with the administration of justice. Moreover, Reuter (2013) provides primary and secondary goals of anti-money laundering measures. According to Reuter, the primary goal of anti-money laundering control is to reduce predicate crimes, particularly those with substantial per-participant earnings; as well as to combat ‘global bads’, such as terrorism and kleptocracy. The secondary goals are

protecting the integrity of the financial system; sanctioning felons who would otherwise elude justice, such as high-level drug dealers who do not handle drugs but only the profits from dealing; providing just deserts, because seizing the assets of wealthy offenders may provide social satisfaction; and simply inconveniencing felons by making it more difficult and nerve-racking to get access to their funds (Reuter, 2013, p. 225).

Based on the points presented above, the researcher finds that the creation, legal essence, and development of a legal order against money laundering would be justifiable through economic and security reasons.

### ***Security and political reasons***

The primary rationale for the prevention and prohibition of money laundering is to dismantle the negative effect of money laundering on the political stability, peace and security of states. Money laundering has serious social, political, and security ramifications. It enables criminals to consolidate their economic power, penetrate the legitimate economy, and bribe officials, resulting in an environment where criminal activity permeates a country's political system (Arnone and Borlini, 2010; Borlini, 2014). Specifically, as Aluko and Bagheri (2012) noted, when money laundering is left undefeated, it undermines political stability, democratic structure and process, and good governance, and eventually, it instigates social and political unrest within the society. In this vein, Moreira et al. (2012, p. 42) added that money laundering is not only a threat to the good functioning of the financial system but also is the "Achilles' heel of criminal activity".

Money laundering is critical to the effective operation of every form of transnational and organized crime. Organized crime has emerged as a major threat to

political stability. Transnational organized crime according to Miraglia, Ochoa, and Briscoe (2012), erodes state capacity to provide public goods, harms state legitimacy, and impedes state-building and peacebuilding initiatives. Transnational organized crime can infiltrate the structural composition of states, feeding on weaknesses and eventually heightening fragility. Fundamentally, as Aluko and Bagheri (2012, p. 448) rightly stated, “money laundering is the lifeblood of organized crime, and it allows the illicit ventures of the criminal organized groups and individuals to continue”. In a nutshell, money laundering turns the adage that crime does not pay on its head. Money laundering thus becomes not only a law enforcement issue, but also a serious threat to national and international security.

Thus, the prevention and suppression of money laundering must focus on attacking the economic power of criminals. In this regard, Durrieu (2013) stated that the international efforts to prevent and counter money laundering have been built on strategies aimed at impeding the growth of criminal groups in general, and organized crime in particular, by blocking and penalizing one of their main sources of financing: laundering or decontaminating their proceeds of crime in the legitimate economy. In this line of reasoning, Walker (2007) contends that attacking the economic underpinnings of crime can be an effective transnational crime prevention strategy.

This is recognized in the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. In its preamble, the Convention expresses states’ recognition of serious crimes, such as illicit trafficking, which generates large financial profits and wealth, enabling transnational criminal organizations to penetrate, contaminate and corrupt government structures, legitimate commercial and financial business, and society at all its levels (UN, 1988). It, therefore, pointed out that the

international community is henceforth determined to deprive those involved in the illicit trafficking of the proceeds of their criminal activities and thereby eliminate their main incentive for doing so.

### ***Economic reasons***

The preservation of the integrity of the financial system and the entire economy from money launderers is a second significant rationale for taking legal actions against money laundering. Money laundering creates a favorable condition for criminal investment, and this is undesirable for several reasons. First, and perhaps least damagingly, as McCarthy (2018) rightly stated criminal investment skews the statistics on national income and wealth distribution. This causes problems for policymakers looking to use national statistical data to guide public policy decisions (Aluko and Bagheri, 2012; Ferwerda, 2013; UNODC, 2011).

Second, criminal investments cause economic disruptions. Ordinary investors want to make a profit, whereas criminal investors invest to conceal the illicit origin of the funds. More precisely, Durrieu (2013, p. 81) stated that “launderers may not seek to invest their accumulated ill-gotten assets where it is more economically profitable, but where they can disguise and clean their proceeds of crime more effectively”. This means that capital is diverted from solid, stable investments, with high return rates, to low-risk options to avoid detection.

Third, criminal investments distort import and consumption patterns. Launderers could be willing to pay far more than the true value of the assets if the concealment opportunities are high. This mindset will artificially inflate purchasing prices and make them unaffordable for honest competitors (Arnone and Borlini, 2010). Further, McCarthy

(2018) stated, criminals looking to spend criminal proceeds are more inclined to consume high-value luxury products if illegal money cannot be readily invested, and then it must be consumed directly. In many cases, an increase in the demand for luxury goods, however, implies an increasing demand for imports. This has an impact on foreign trade balance, and in the long run, it creates an unfavorable business environment for two reasons. First, they deteriorate the country's trade balance, which can cause exchange rates to be reassessed, and decrease the country's competitiveness. Second, as a consequence of the country's decreased competitiveness, legitimate companies can be driven out of business. In this line of reasoning, another major problem of money laundering includes errors in economic policy resulting from the already explained artificially inflated prices and the resulting demand generated by massive flows of criminal funds into particular areas of the economy (Arnone and Borlini, 2010). In this context, government decisions would be erroneous if they adjusted economic policies to meet this fictitious demand. In this sense, volatility in exchange rates and interest rates resulting from the disposition of dirty assets would be created, as well as the financial markets would be corrupted.

Fourth, economic growth necessitates well-established, well-functioning financial institutions, yet criminal investments jeopardize the operation and reputation of the legitimate financial system in many ways. First, criminal investments increase the level of volatility and solvency in the financial sector (Sullivan, 2015; World Bank, 2011). Second, criminal investments affect the credibility of financial institutions and the systems in which they operate, such as illicit transactions taint licit ones, which can lead investors to disinvest (Chatain, McDowell, Mousset, Schott, and Willebois, 2009; Durrieu, 2013; Sullivan, 2015). Finally, criminal investments promote corruption since officials are bribed to make

the investments, and as a result, officials are subject to the criminal's economic influence, resulting in a loss of credibility in a country's institutions (FATF, 2012).

Money laundering can also distort economic data and thus distort macroeconomic analysis and policymaking. More precisely, it can affect the real economy by distorting consumption, savings, investment, inflation, competition, trade, and employment. Its effect is a general economic malaise: as investment capital becomes scarce, interest rates rise; as interest rates rise, businesses borrow less; as businesses borrow less, productive capacity decreases; and as capacity decreases, unemployment increases. As a result, stagflation occurs, which is defined as a mix of high unemployment, high inflation, and high-interest rates (McCarthy, 2018). This effect is more severe in developing countries that have lax regulations. Therefore, combating money laundering is about preserving the integrity of financial institutions, ensuring a fair distribution of resources, and saving the economic policy from being distorted.

In general, the two major reasons for taking legal actions against money laundering would be compelling enough to justify the creation and development of a preventive/regulatory legal framework against money laundering. The general concern is that organized crime and their huge amounts of criminal wealth threatened to undermine the integrity of the financial system, compromise the correct and transparent administration of justice, undermine general prosperity, corrupt legal business, and subvert national security. Fighting money laundering is part of creating a business-friendly environment which is a precondition for lasting economic development. Specifically, anti-money laundering efforts, both on a national and international level, have a dual purpose: fighting criminal organizations, arms dealers, and terrorists; and ensuring the integrity of our

economic and civil institutions which finally leads to sustainable development. Moreover, it is about creating transparency, rule of law and good governance, and maintaining a strong social fabric and collective ethical standards.

### **2.3.2. The Pillars of Anti-Money Laundering Regime**

According to most literature, a national or international anti-money laundering regime consists of two pillars: prevention and enforcement. The prevention pillar of the anti-money laundering regime—the regime of reporting and regulation—is designed to deter criminals from laundering proceeds of crime through private individuals and institutions. This regime has four key elements: know your customer/customer due diligence (KYC/CDD), reporting, regulation and supervision, and sanctions (Levi and Reuter, 2006; Reuter and Truman, 2005).

CDD involves the requirements to name not just the nominal account holder but also the beneficial owner on whose behalf she or he is acting; to provide proof of identity and an address, and ongoing monitoring to check whether individual and corporate customer account behavior is consistent with the bank's knowledge of their circumstances and work. This is intended to limit criminal access to the financial system and latterly to generate a continuous reconsideration of whether customers might be benefiting from crime or financing terrorism. The assumption is that the requirement to provide information deters some offenders and others will be denied access once the information has been checked.

FATF recommends (2012-2019, Recommendation No. 10) financial institutions to apply CDD measures such as:

- a) identifying the customer and verifying that customer's identity using reliable, independent source documents, data, or information,
- b) identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner,
- c) understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship,
- d) conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the institution's knowledge of the customer, their business and risk profile, including, where necessary, the source of funds.

FATF requires financial institutions to undertake the above CDD measures when (i) establishing new business relations; (ii) carrying out occasional transactions such as above USD/EUR 15,000 or wire transfers; (iii) there is a suspicion of money laundering or terrorist financing, or (iv) the financial institution has doubts about the veracity or adequacy of previously obtained customer identification data. FATF also prohibits financial institutions from keeping anonymous accounts or accounts in obviously fictitious names.

Reporting refers to the information that the institution or professional must provide to enforcement authorities. Even though it varies from state to state, the FATF recommends financial institutions to maintain all necessary records for at least five years after the business relationship is ended, or after the date of the occasional transaction (FATF, 2012-2019, Recommendation No. 11). All records obtained through CDD measures such as official identification documents like passports, identity cards, driving licenses or similar documents, and account files and business correspondence, including the results of any analysis undertaken (example, inquiries to establish the background and purpose of complex, unusual large transactions) have to maintain at least five years after the end of

the transaction. Further, the financial institutions have to available these records to domestic competent authorities.

External supervision is active monitoring of compliance with CDD and reporting requirements. Finally, sanctions (mostly administrative and civil rather than criminal) punish individuals and institutions that fail to implement the prevention regime, CDD and reporting requirements.

The enforcement pillar, the punitive regime, is designed to punish criminals when, despite prevention efforts, facilitated the successful laundering of the proceeds or instrumentalities of crime (Reuter and Truman, 2005). The enforcement pillar has five key elements: a list of underlying offenses or predicate crimes, investigation, prosecution, punishment, and confiscation (Levi and Reuter, 2006; Stessens, 2003). The first footstep in the fighting against money laundering is the criminalization of the act with a list of predicate offenses. As Stessens (2003) put it, the criminalization of money laundering aims to undermine crime and especially organized crime by taking away the incentive for the commission of the crime, that is, the financial gains. In line with this reasoning, Borlini (2008) states that the criminalization of money laundering has two important aspects: preventing criminals from committing crimes that generate illegal proceeds, predicate offenses, and preventing money launderers from enjoying their illegal proceeds. Furthermore, the criminalization of money laundering with its list of predicate offenses, paves the way for the investigation, prosecution, punishment of perpetrators, and seize freeze, and confiscation of the proceeds of crime.

Confiscation encompasses two measures – provisional measures and the permanent deprivation of ownership of criminal assets. The provisional measures embrace identifying,

tracing, freezing, or seizing the proceeds or instrumentalities of crime (Cabana, 2014). These are aimed at locating and preserving criminal assets for the eventual purpose of being able to execute a confiscation or forfeiture order. Freezing or seizing the proceeds or alleged proceeds of crimes being investigated ensures that this property is not laundered or disposed of. Whilst freezing usually applies to intangible property (e.g., freezing money held in a bank account), seizure applies to tangible property (e.g., seizure of cash, cars, or houses) (Brun, Gray, Scott & Stephenson, 2011). The FATF recommends (2012-2019, recommendation no. 4) countries to freeze or seize and confiscate:

- (a) property laundered, (b) proceeds from, or instrumentalities used in or intended for use in money laundering or predicate offenses, (c) property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations, or (d) property of corresponding value.

### **2.3.3. International Response to Money Laundering**

Money laundering has a transnational effect and becomes a concern of the international community. Without robust international, regional, and national coordination in the efforts to combat money laundering, there would be less progress in the war against criminal organizations and their illicit profits. At the national level, the United States Bank Secrecy Act of 1970 represents the historic starting point for efforts to detect and sanction money laundering, though the term was not yet commonly used (Levi and Reuter, 2006). The Act was intended to limit rather than protect bank secrecy. It imposes a reporting obligation on banks on transactions involving more than \$10,000 in cash and criminalized the failure to report (Levi and Reuter, 2006, p. 298). Retrospectively, the Bank Secrecy Act was an anti-money laundering law, but at that time the phrase ‘money laundering’ had not yet been adopted in the (legal) literature (Duyne, Harvey and Gelemerova, 2018). The first legal

meaning of the term “money laundering” was used in an American judgment in 1982 concerning the confiscation of laundered Columbian drug proceeds (Stessens, 2003; Unger and Hertog, 2012). However, historically, the concept of money laundering was originally used by American law enforcement officers in the 1920s. The United States (U.S.) was the first country in the world to criminalize money laundering, through the Money Laundering Control Act of 1986 (Mathers, 2004, p. 23). Unger and Hertog (2012, p. 288) argued that “money laundering regulation was mainly the result of a failed US war on drugs, which under the Clinton regime turned into a fight to reclaim the proceeds of crime”. The U.S. was the originator and most prominent supporter of this new policy, which switched from an unsuccessful anti-drug policy to an anti-money laundering policy. The second country which criminalized money laundering was the United Kingdom (UK), through the Drug Trafficking Offences Act of 1986 which criminalized the proceeds of drug trafficking activities (Durrieu, 2013). Currently, over 190 states have criminalized money laundering, and most of these countries have set up specialized agencies to combat it.

The international legal order against money laundering was created in the late 1980s. The U.S., UK, and other industrialized countries have propagated the issue of money laundering at the international arena (Unger & Hertog, 2012). In 1988 the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was enacted and after a year, in 1989, FATF was established. Since then there has been a steady move against money laundering globally. Generally, scholars such as Durrieu (2013) and Stessens (2003) have defined the international legal order against money laundering as a set of international legal norms and provisions crafted to control and prevent money

laundering by creating many criminal offenses and imposing a series of preventive and regulatory measures.

Besides the international legal order, regional and sub-regional initiatives have been taken place to combat and prevent money laundering. Regional organizations like the European Union, the Organization of American States (OAS), and the African Union (AU) have taken several initiatives to prevent money laundering in their area of influence. Moreover, FATF Style Regional Bodies (FSRBs) have been created to implement FATF's 40 Recommendations across their member states.

Therefore, in this section, the researcher discusses the international, regional, and sub-regional measures taken to curtail the problem of money laundering. The international responses encompass measures taken by the UN, FATF, IMF and World Bank, Egmont Group, Wolfsburg Group, Basel Committee on Bank Supervision, Interpol, and World Customs organizations. At the regional and sub-regional levels, the researcher narrows the scope of the discussion to Africa and one of the FATF Style Regional Bodies - the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) respectively to which Ethiopia is a member state.

### ***Initiatives taken by the United Nations***

The UN was the first international organization to undertake significant action to fight money laundering on a truly worldwide basis (Schott, 2006). The UN is important in this regard for several reasons. First, it is an international organization with the broadest range of membership. Founded in October of 1945, there are currently 193 member states of the UN from throughout the world (UN, 2019). Second, the UN actively operates a program to fight money laundering; the Global Programme against Money Laundering (GPML),

which is headquartered in Vienna, Austria, is part of the UNODC. The objective of the program is to strengthen the ability of Member States to implement measures against money laundering and the financing of terrorism and to assist them in detecting, seizing, and confiscating illicit proceeds (UNODC, n.d). Third, and perhaps most importantly, the UN can adopt international treaties or conventions that have the effect of law in a country once that country has signed, ratified, and implemented the convention, depending upon the country's constitution and legal structure. The UN treaties and conventions will be a major force in harmonizing national laws and enforcement actions around the world which can serve as a benchmark and assess countries' anti-money laundering regimes. In certain cases, the UN Security Council has the authority to bind all member countries through a Security Council Resolution, regardless of other actions on the part of an individual country.

The UN has passed three noticeable conventions cognate to money laundering: the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (Vienna Convention), the UN Convention against Transnational Organized Crime and its Protocols (2000) (Palermo Convention), and the UN Convention against Corruption (2003).

#### ***UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances***

It was adopted in December 1988 in Vienna. The world leaders enacted the Vienna Convention for dual reasons: first to fill in the gap of previous drug-related conventions (UN Single Convention on Narcotic Drugs of 1961 and the UN Convention on Psychotropic Substances of 1971) and the second is to mitigate and reduce the negative impact of drug trafficking on the national economy, health, and welfare of people, domestic

political stability, etc. It is the first international legal instrument to address the issue of proceeds of crime and to require States to establish money laundering as a criminal offense (Alldrige, 2016; Durrieu, 2013). The Convention intends to undermine the financial strength of drug traffickers by imposing a binding obligation on its Parties to criminalize the act of laundering the proceeds of drug-related crimes including the need to identify and trace criminal proceeds, adopt confiscation measures, and enhance the international cooperation between law enforcement organs and other concerned bodies (UN, 1988).

The Convention was adopted based on the fact that any anti-drug strategy must criminalize money laundering and deprive drug traffickers of their illicit profits. Although the term money laundering is not explicitly mentioned in the instrument, it provided an extensive definition of it. The Convention was couched to ensure that money laundering and narcotics-related activities were accorded the requisite level of seriousness by the judicial and prosecutorial authorities of each participating state. It required the criminalizing by each party of money laundering and drug trafficking to predicate offenses such as conspiracy, aiding, and abetting. The Convention requires that parties ensure that their courts and other competent authorities having jurisdiction take into account factual circumstances that make the commission of a comprehensive list of factors that render these offenses particularly serious. Amongst the factors cited relevant to money laundering include offenses committed by public office holders (politically exposed persons) and whether the offense is connected to that office, the involvement of organized criminal groups, and whether violence was used.

The Convention has widespread acceptance, so it is regarded as the foundation of the international legal regime in the anti-money laundering field because it set the path for

more concerted efforts to address the problem of money laundering (Gilmore, 2004). The major deficiency within the wordings of the Vienna Convention as far as money laundering is concerned, however, was the fact that it was specific in scope and application, i.e., drug-related money laundering. This meant that money generated from other offenses fell within the convention's blind spot and as such was free to be laundered without encroaching on any instruments against money laundering. This lacuna led to the criminalization measures initiated by the UN Convention against Transnational Organized Crime.

### ***UN Convention against Transnational Organized Crime***

The UN adopted the Convention against Transnational Organized Crime (Palermo Convention) on 15 November 2000 and came into force on 29 September 2003. The UN claims that the convention represents a major step forward in the fight against transnational organized crime. While this is similar to the Vienna Convention, it goes further by expanding the scope of the predicate offense beyond drug trafficking. Accordingly, it specifically obligates signatory countries to include all serious crimes as a predicate offense for criminalizing money laundering (UN, 2000, Art. 6(2(b))). Serious crime according to this Convention means an offense punishable by a maximum deprivation of liberty of at least four years or more serious penalty (UN, 2000, Art. 4). The Palermo Convention requires ratifying countries to adopt the following measures concerning money laundering: to criminalize money laundering including all serious crimes as predicate offenses of money laundering, whether committed to or outside of the country, and permit the required criminal knowledge or intent to be inferred from objective facts; to establish a comprehensive domestic regulatory and supervisory regime for banks and other financial institutions that are susceptible to money laundering to deter and detect all forms of money

laundering (UN, 2000, Art. 7). Such measures shall include record keeping, customer identification, and suspicious transaction reports; establish financial investigation units to analyze and disseminate information and to strengthen cooperation both domestically and internationally; and develop and promote global, regional, sub-regional and bilateral cooperation among judicial, law enforcement and financial regulatory authorities to combat money laundering (UN, 2000, Art. 7).

The Palermo Convention was necessary to minimize the gaps that the Vienna Convention was suffering. The Vienna Convention did not use the word money laundering and it did not directly address issues concerning money laundering. Its major concern is to avoid the threats to the health and welfare of human beings and the adverse consequences of narcotic drugs and psychotropic substances against the economic, cultural, and political foundations of society. It provides to deprive persons engaged in illicit traffic of the proceeds of their criminal activities to eliminate the root cause of the problem of abuse of narcotic drugs and psychotropic substances. Whereas the Palermo Convention deals with criminalizing money laundering that includes the proceeds of all serious crimes and it incorporates mechanisms like record keeping, suspicious transaction reports, and customer identification that are the major tenets of the day to prevent money laundering.

The Palermo Convention was supplemented by three protocols: the Protocol against the Smuggling of Migrants by Land, Sea, and Air; Protocol to Suppress and Punish Trafficking in Persons, especially Women and Children; Protocol against the Illicit Manufacturing of and Trafficking in Firearms. These are important because human trafficking, migrant smuggling, and firearms trafficking create an opportunity for criminal

syndicates to earn a high profit, and subsequently, this income is intermingled into legitimate business or used to commit other criminal activities.

### ***UN Convention against Corruption***

The world leaders have noticed that as far as corruption exists in the anti-money laundering system, the system will never be fully achieved its objectives. The extremely profitable illicit drug trade tempts the leading politicians, judges, etc. and some politically exposed persons are involved in the many different levels of the trade. As a result, it corrupts the central organs of State power. Since corruption is the major factor to hinder the combating of money laundering related to various types of serious crimes, the United Nations Convention against Corruption was adopted on 31 October 2003 and came into force on 14 December 2005. The main purpose of the UN Convention against Corruption is to ensure that all Contracting States criminalize and put in place measures against corruption. The Convention has criminalized several acts of corruption. Besides criminalizing the activities of corruption, the Convention also criminalizes the laundering of their proceeds (UN, 2003, Art. 23).

According to Chaikin and Sharman (2009) corruption and money laundering are symbiotic: not only do they tend to co-occur, but more importantly the presence of one tends to create and reciprocally reinforce the incidence of the other. Corruption is one of the predicate offenses of money laundering that produces enormous profits to be laundered, at the same time, bribery, trading in influence, and embezzlement can compromise the working of anti-money laundering systems. The Convention requires the Member States to put measures in place not only to detect and prevent corruption but also the laundering of the proceeds of corruption.

In conclusion, the UN has come up with conventions and resolutions to combat money laundering from different perspectives. It can be said that the UN Conventions discussed above are ground-breaking documents in that they resulted in the elimination of bank secrecy laws in some countries, triggered the drawing up of national legislations, bilateral agreements, and mutual legal assistance treaties, encouraged the creation of international organizations against money laundering and it provided a framework within which law enforcement officers can operate.

### ***The Financial Action Task Force***

Besides the UN, the G-7 industrialized countries established the FATF, an inter-governmental body, at the end of the 1980s. FATF was created in response to the growing concern of the global drug problem (FATF, 2019a). During the mid of 1980s, there was widespread recognition of international drug trafficking, as a global problem requiring a global resolution. Drug trafficking, indeed, has a global character, requiring the international movement of products from producer countries to the major drug consumer nations. By the late 1980s, the prosperous global drug trade was a concern for citizens and governments of the world (Gallant, 2014). Both drugs and drug money moved across borders freely, and national legislation and law enforcement seemed powerless to put a halt to it (FATF, 2014). The G-7 industrialized countries' ministers decided that a multinational approach was necessary to fight the international drug trade and to prevent the global misuse of the banking sector and other financial institutions to launder drug money (Masciandaro, 2004). They created the FATF, which was tasked with developing an international consensus on measures to detect and seize the proceeds from drugs and other crimes (Chaikin and Sharman, 2009). Duyne *et al.* (2018:54) stated that “the FATF is an

informal club established by another informal club, the seven Heads of State, who in Paris in 1989 gave it a mandate for five years to fight money laundering”.

Initially, FATF was created to address the problem of drug-related money laundering, but its mandate was extended to include all proceeds of serious crimes and at the beginning of the 2000s its mandate was extended to include countering terrorist financing and countering the financing of proliferation of weapons of mass destruction.

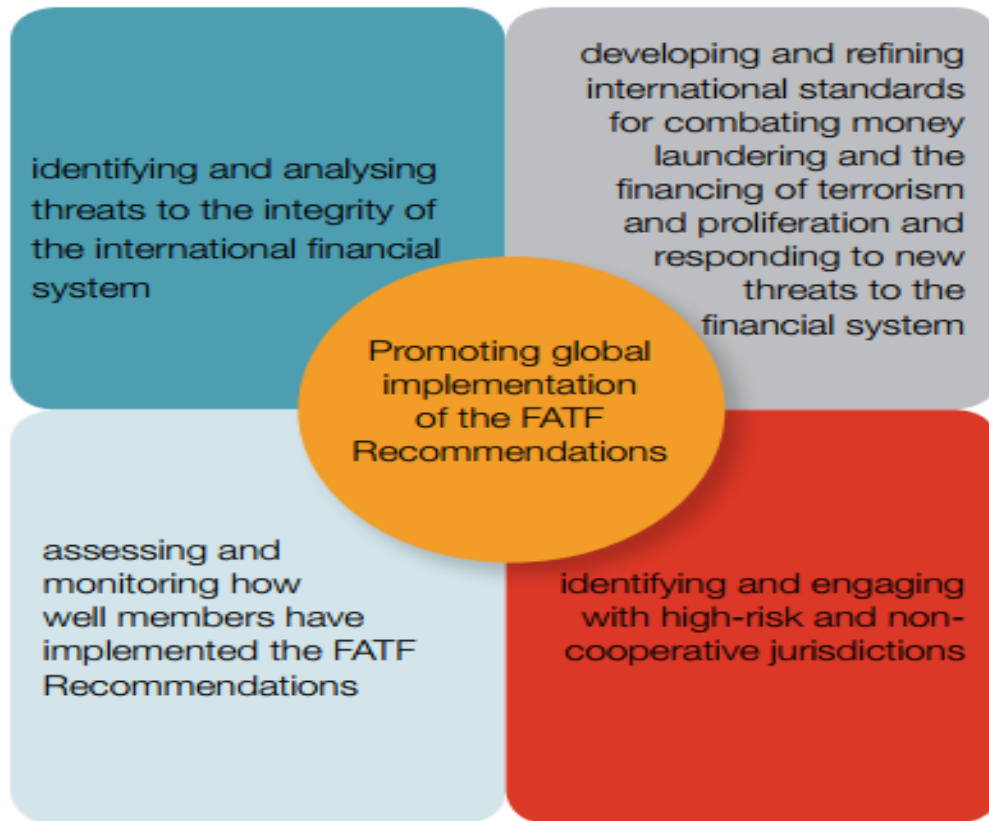
The FATF<sup>9</sup> has an ongoing and profound impact on the development of multidimensional anti-money laundering standards. It fulfills several roles, including setting standards, monitoring the progress of members in implementing anti-money laundering measures, analyzing money laundering examples or case studies, and the worldwide promotion of anti-money laundering measures (FATF, 2015; McCarthy, 2018). In 1990, a year after its creation, the FATF issued the 40 Recommendations. These recommendations have been updated and revised in 1996, 2003, 2004, 2012, and most recently in June 2019 to take account of new developments in money laundering and to reflect developing best practices internationally (FATF, 2012-2019). The FATF Recommendations set out the essential measures that countries should have in place to: identify the risks, and develop policies and domestic coordination; pursue money laundering, terrorist financing, and the financing of proliferation of weapons of mass destruction; apply preventive measures for the financial sector and other designated sectors; establish powers and responsibilities for the competent authorities (e.g., investigative, law enforcement and supervisory authorities) and other institutional measures; enhance the transparency and availability of beneficial ownership information of legal persons and arrangements; and facilitate international cooperation (FATF, 2012-

2019). These recommendations set out the legal and regulatory measures that countries should take to enable them to detect, prevent, and punish the misuse of their financial system and other designated non-financial business and professions for money laundering. These measures were the turning point in the fight against money laundering. Furthermore, they are widely recognized, including by the United Nations Security Council (2005), IMF, and World Bank, as setting out appropriate minimum standards to which all jurisdictions should adhere. FATF's proven success as a global standard-setter on measures to combat money laundering saw its mandate expand to include these important issues as well as new threats to the integrity of the international financial system. Currently, the FATF Recommendations are applied by over 190 countries, through a global network of regional bodies affiliated with the FATF—the FATF Style Regional Bodies (Duyne *et al.*, 2018; FATF, 2014).

The FATF not only sets these standards: the FATF Recommendations, but it also looks at how well countries have implemented them and identifies those countries that have weaknesses in their anti-money laundering measures. For the first decade of its existence, the FATF succeeded in diffusing its 40 Recommendations through a program of outreach and a series of regional seminars (Chaikin and Sharman, 2009). Scholars such as Duyne *et al.* (2018, p. 54) argue that the “40 Recommendations are anything but voluntary”. They are the outlines of an intended global control policy over states and financial institutions. Nevertheless, FATF exerts a coercive power using Recommendation 21: “Financial institutions should give special attention to business relationships and transactions with persons, including companies and financial institutions, from countries which do not or insufficiently apply the FATF Recommendations”.

From 2000, onwards the consensual approach was substituted by a strategy of coordinated blacklisting, represented by the non-Co-operative Countries and Territories (NCCT) list (Alldridge, 2008). FATF conducts regular mutual evaluations and in case of non-compliance with the recommendations, countries can get blacklisted as non-cooperative countries (Unger & Hertog, 2012). However, the practice of blacklisting is criticized for the political nature of the process that generates a competitive advantage for its core members, precisely, the US; for being arbitrary and lacking a consistent methodology; and the exclusive nature of FATF membership cannot legitimately interfere into the internal affairs of other jurisdictions in this direct way (Hulsse, 2007). Moreover, questions have been raised about the willingness (or possibility) of the FATF to apply its principles to the more powerful nations. Generally, FATF's main functions are portrayed pictorially as follows:

Figure 3: Core functions of FATF



Source: FATF (2015, p. 8)

### ***International Monetary Fund and the World Bank***

The mission of the World Bank is to fight poverty throughout the world, whereas the basic mission of the IMF is macro-economic and involves financial stability surveillance throughout the world (Schott, 2006). Nonetheless, both organizations have identical goals for anti-money laundering. Schott (2006) provides that in April 2001, the Boards of Executive Directors of the World Bank and IMF recognized that money laundering is a problem of global concern that affects major financial markets and smaller ones. In other words, the IMF and the World Bank have joined the global anti-money laundering drive and contributed to the FATF's efforts in several core areas. They provide a natural forum

for information sharing, developing common approaches to issues, and promoting financial policies and standards in the fight against money laundering and terrorist financing. They conduct financial sector assessments, provide technical assistance in the financial sector, initiate training, and awareness programs (such as global dialogue, distance learning networks, and mentoring programs), conduct research and gather data, and exercise surveillance over member's exchange systems.

### ***Egmont Group***

As part of the effort to fight money laundering, governments have created agencies to analyze information submitted by covered entities and persons according to money laundering reporting requirements. Such agencies are commonly referred to as Financial Intelligent Units (FIUs). According to the Egmont Group (1996 and 2004), an FIU is:

A central, national agency responsible for receiving, (and as permitted, requesting), analyzing and disseminating to the competent authorities, disclosures of financial information: concerning suspected proceeds of crime and potential financing of terrorism, or required by national legislation or regulation, to combat money laundering and terrorism financing.

In a similar vein, Schott (2006) and Bello (2016) have defined FIU as competent authorities set by various governments that collect, collate, and disseminate intelligence both within and outside their jurisdictions to prevent money laundering. These units serve as the focal point for national anti-money laundering programs because they provide for the exchange of information between financial institutions and law enforcement bodies (Gleason and Gottselig, 2004). Because money laundering is practiced on a worldwide scale, there has also been the need to share information on a cross-border basis.

In 1995, FIUs began working together and formed the Egmont Group of Financial Intelligence Units (Egmont Group) (named for the location of its first meeting at the

Egmont-Arenberg Palace in Brussels) (Egmont Group, 2001a). The Egmont Group provides a forum to enhance cooperation and to share information that has utility in detecting and combating money laundering and, more recently, terrorism financing (Muller, 2007). Specifically, the goal of the Egmont Group is to provide a forum for FIUs to improve support for their respective national anti-money laundering programs. This support includes expanding and systematizing the exchange of financial intelligence information, improving expertise and capabilities of personnel of such organizations, and fostering better communications among FIUs through the application of technology” (Muller, 2007, p. 89). As of January 2021, FIUs from 166 countries are members of the Egmont Group (Egmont Group, 2021). As mentioned in its Statement of Purpose, plenary meetings are held to...discuss issues common to FIUs and to foster such international cooperation among established FIUs, to assist and advise FIUs under development, and to co-operate with representatives of other government agencies and international organizations interested in the international fight against money laundering.

The mission of the Egmont Group was expanded in 2004 to include specific financial intelligence on terrorist financing. To be a member of the Egmont Group, a country’s FIU must first meet the Egmont FIU definition. A member must also commit to act following the Egmont Group’s Principles for information exchange between financial intelligence units for money laundering cases. These principles include conditions for the exchange of information (exchange information freely with other FIUs based on reciprocity or mutual agreement), limitations on permitted uses of information (information exchanged between FIUs may be used only for the specific purpose for which the information was sought or provided, the requesting FIU may not transfer information shared by a disclosing

FIU to a third party, nor make use of the information in an administrative, investigative, prosecutorial, or judicial purpose without the prior consent of the FIU that disclosed the information), and confidentiality (all information exchanged by FIUs must be subjected to strict controls and safeguards to ensure that the information is used only in an authorized manner, consistent with national provisions on privacy and data protection) (Egmont Group, 2001b).

In conclusion, money laundering is an international issue that can only be effectively addressed through international cooperation and coordination, to which the Egmont Group is passionately committed.

### ***Wolfsburg Group***

The Wolfsburg Group consists of 13 global private banks namely Banco Santander, Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Hongkong and Shanghai Banking Corporation (HSBC), J.P. Morgan Chase, Mitsubishi UFJ Financial Group (MUFG) Bank, Société Générale, Standard Chartered Bank, and UBS (Wolfsburg Group, n.d). The Wolfsburg Group aims to develop financial services industry standards, KYC policies, anti-money laundering, and counter-terrorist financing guidelines (Pieth, 2007). The Wolfsburg Group stresses the importance of continuing cooperation with law enforcement and government agencies and the need for information to be exchanged promptly between jurisdictions without breaching any privacy or discrimination legislation. The Group published the Wolfsburg Anti-Money Laundering Principles for Private Banking in October 2000, which was revised in May 2002 because of the September 11 events and again most recently in June 2012 (Cox, 2014). The principles, which are voluntary and non-binding, clearly articulate anti-money laundering principles

for banks. The eleven primary guidelines include general guidelines about client acceptance, which emphasizes KYC procedures to prevent the use of bank's operations for criminal procedures; additional due diligence and attention in special situations; updating client files regularly; written policies on the identification, as well as the follow-up on suspicious transactions; putting in place a sufficient monitoring program; and retention requirements for all anti-money laundering related documents (generally for a minimum of five years).

### ***Basel Committee on Banking Regulation and Supervisory Practices***

The Basel Committee was established by the Central Bank Governors of the G-10 countries and the supervisory authorities of Luxembourg in 1974 (Schott, 2006). The committee has no formal international supervisory authority or force of law. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practices on a wide range of bank supervisory issues. It aimed to enhance financial stability by improving supervisory know-how and the quality of banking supervision worldwide. The Committee seeks to achieve its aims by setting minimum supervisory standards; improving the effectiveness of techniques for supervising international banking business; and exchanging information on national supervisory arrangements. And, to engage with the challenges presented by diversified financial conglomerates, the Committee also works with other standard-setting bodies, including those of the securities and insurance industries.

The Basel Committee issued the Basle Statement of Principles in December 1988 which warned that the use of financial systems for criminal purposes should be a matter of concern for banking supervisors and bank management. The principles cover the basic issues concerning the policies and procedures of customer identification, compliance,

record-keeping systems, and staff training in the suppression of money laundering through the banking system (Basel Committee, 1988). Similar to the Wolfsburg Group, the Committee emphasizes the importance of enhanced information sharing and cooperation with law enforcement bodies. It also states that effective KYC and CDD procedures implemented by the financial services providers are vital to prevent abuse of the financial system by terrorists or criminals (Basel Committee, 1988). The Basle Principles cover all criminal proceeds and are not restricted to drug-related money laundering. The new Basel Capital Accord or Basel II requires banks to align their capital more closely with credit risk, market risk, and operational risk and encourages banks to improve their risk management processes. However, the Basle Statement of Principles is not legally binding on banking supervisors internationally and merely constitutes guidelines and moral standards.

### ***Interpol and the World Customs Organization***

Interpol assists member nations in cooperating and sharing information in the investigation of money laundering and provides technical assistance and training on anti-money laundering methods. As early as 1979, Interpol passed a resolution urging members to confiscate assets derived from crime. The World Customs Organization monitors the physical movement of money across international borders and has created a central database for money laundering cases that can be accessed by all customs administrators.

#### **2.3.4. Regional and Sub-Regional Initiatives**

By 2005 the FATF had fostered the creation of eight new regional international organizations known as FATF-Style Regional Bodies (FSRBs). FSRBs have been established to disseminate international standards throughout the world. The main task of the regional bodies is to devise systems for combating money laundering and terrorist financing in their respective regions. The FSRBs conduct evaluations of the anti-money laundering/countering the financing of terrorism systems of the member states and make recommendations for their improvement. These regional bodies are the Caribbean Financial Action Task Force (founded in 1990), Asia-Pacific Group on Money Laundering (1997), the Council of Europe's MONEYVAL (1997), the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG 1999), the Inter-Governmental Group against Money Laundering in West Africa (GIABA 1999), the Financial Action Group of South America (GAFISUD 2000), the Middle Eastern and North African Financial Action Task Force (MENAFATF 2004), and the Eurasian Anti-Money Laundering Group (EAG 2004). These bodies cover every part of the world, devoted to propagating the 40 Recommendations among its member states through self-and peer assessment (Chaikin and Sharman, 2009). Regionally, besides the FSRBs, regional organizations such as the European Union, the African Union, and the Organization of American States have established anti-money laundering regimes.

However, in this sub-section, the discussion focuses on the African Union, Intergovernmental Authority on Development, and ESAAMLG. These institutions are selected because of their engagement in the prevention and suppression of money laundering, and Ethiopia is their member state.

### *African Union and Money Laundering*

The threat of organized crime to Africa is a growing issue. Criminal actors either foreign, networked, state embedded, or mafia-style are targeting Africa (Organized Crime Index Africa [OC Index], 2019). Africa has become a target of these criminal syndicates because of “the significant illicit wealth that can be generated, stemming from criminal market opportunities that exploit various social and political vulnerabilities, state fragility, and limited policing capacities present on the continent” (Interpol, 2018, p. 4). Criminal actors are engaged in several illicit businesses notably, drug trafficking, human trafficking, people smuggling, environmental crimes, financial crimes, counterfeited goods, works of art trafficking, stolen motor vehicles trafficking, and maritime piracy (Interpol, 2018; OC Index, 2019). Also, crimes such as cybercrime and the trade-in firearms are enabling crimes that are supporting organized criminality throughout the continent (Shaw, 2017). Organized crime in Africa generates huge profits for all involved, and there are substantial illicit interregional financial flows and illicit profits moving throughout the continent and often heading offshore. Money laundering relating to all criminal market activities is occurring on a global scale.

Even though organized criminal activities including money laundering have plagued Africa, the continent lacks a robust anti-money laundering architecture. That is to say, the African Union did not have a separate anti-money laundering normative framework and institutional arrangement. However, the Organization of African Unity Convention on the Prevention and Combating of Terrorism, and the African Union Convention on Preventing and Combating Corruption have a considerable emphasis on money laundering. Further, the Sustainable Development Goals of 2015 and Africa’s

Development Agenda of 2063 have recognized the issue of money laundering and other organized criminal activities as a cross-cutting threat to development. African institutions like the African Development Bank, have adopted a strategic framework and action plan to prevent illicit financial flows in Africa (Hunter, 2019).

### ***Intergovernmental Authority on Development and Money Laundering***

The Intergovernmental Authority on Development (IGAD) region is a very turbulent and conflict-ravaged area of the world (Dersso, 2014; Mengistu, 2018). The region has the prevalence of illicit trade of (natural resources, animals and animal parts, arms, counterfeited and smuggled goods, or other contrabands), trafficking in persons, people smuggling, drug smuggling, piracy, and illicit financial flows including money laundering (Berouk, 2011; Interpol, 2018).

The IGAD is one of Africa's youngest sub-regional organizations, founded in 1996 to supersede the Inter-Governmental Authority against Drought and Desertification (IGADD), which was created in 1986 by the then drought-afflicted eastern African countries of Djibouti, Ethiopia, Kenya, Somalia, Sudan, and Uganda (Weldesellassie, 2011). The State of Eritrea<sup>10</sup> and South Sudan joined later, respectively, in 1993 and 2011, as the seventh and eighth member states.

IGADD was created as a response mechanism to address regional environmental issues such as desertification and drought (Byiers, 2017; Lucey & Mesfin, 2016). In 1996, IGADD evolved into IGAD, which produced a much broader mandate and ambitious objectives that embrace cooperation in almost all socio-economic, political, and environmental fields.

With the inauguration of IGAD, great emphasis was given to the peaceful settlement of regional conflicts, and the maintenance of regional peace, stability, and security as a means for achieving sustainable development. IGAD member states agreed: to take effective collective measures to eliminate threats to regional cooperation, peace, and stability, and to establish effective mechanisms of consultation and cooperation for the maintenance of regional peace and security (IGAD, 1996).

To fulfill the new mandate, the IGAD legal and institutional frameworks were also streamlined. Concerning transnational organized crime including money laundering, the IGAD region lacks comprehensive and binding legal frameworks. However, the region has two conventions that deal with criminal matters—conventions on Mutual Legal Assistance and Extradition. Djibouti and Ethiopia are the only countries that have ratified the two conventions (IGAD, 2009a; IGAD, 2009b). Nonetheless, the conventions are not binding legal instruments due to the reason that it is only ratified by Ethiopia and Djibouti and will become effective upon the signature/ratification of two-thirds of the IGAD countries. Also, the IGAD member states have passed the Khartoum Declaration on Combating Terrorism and Transnational Organized Crime. Moreover, the memorandum of understanding on cooperation in peace and security between the AU and the regional economic communities of 2008 and the IGAD regional strategy and implementation plan of 2016-2020 are important normative frameworks for combating transnational organized crime in the region.

The IGAD secretariat was also restructured to fulfill the new mandate and in due course, it established a division responsible for peace and security. Under the Peace and Security Division (PSD), there is Security Sector Program (ISSP) and in the ISSP there is

a Pillar of Transnational Organized Crime. The pillar was established to (i) conduct transnational organized crime threat assessment of the region, (ii) develop regional normative countermeasures, (iii) provide technical assistance to member states, and (iv) promote and strengthen regional information sharing and cooperation (IGAD, 2010). This revealed that the issue of money laundering is governed under this pillar.

### ***Eastern and Southern African Anti-Money Laundering Group***

The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is a regional body subscribing to global standards to combat money laundering and financing of terrorism and the proliferation of weapons of mass destruction. ESAAMLG was established in 1999 and has 18 Member<sup>11</sup> Countries including Ethiopia. It has also regional and international observers. The purpose of ESAAMLG is to combat money laundering in the region by (i) adopting and implementing the FATF recommendations, (ii) studying emerging regional typologies, (iii) coordinating with other international organizations concerned with combating money laundering, and (iv) developing institutional and human resource capacities to deal with these issues, and coordinating technical assistance where necessary (ESAAMLG, 2018a). ESAAMLG enables regional factors to be considered in the implementation of anti-money laundering measures.

The ESAAMLG has a Council of Ministers, Task Force, several Working Groups, and Steering Committees (ESAAMLG, 2018a). The Council of Ministers is the main decision-making body of the ESAAMLG. It consists of one ministerial representative from each member country. The Council is ultimately responsible for setting the strategic direction of the Group. It is headed by a President who holds office for one year.

The Task Force consists of senior government officials from legal, financial, and law enforcement agencies in the region responsible for anti-money laundering/countering the financing of terrorism matters. It is headed by a chairman, who is drawn from the country holding the presidency. The Task Force meets twice a year. The meetings are good platforms to discuss several issues relevant to the FATF Standards, mutual evaluation reports, typology studies' reports, technical assistance and training, progress reports as well as attending special technical workshops/seminars on emerging money laundering and terrorism and proliferation financing trends.

The Task Force is responsible for all technical matters and makes recommendations to the Council for approval. Currently, the Task Force has established Working Groups including the Evaluation and Compliance Group, the Risk, Trends and Methods Group, the Working Group on Risk, Compliance and Financial Inclusion, Technical Assistance and Training Coordination Forum, the FIU Forum and the Budget, Finance and Audit Committee which handle various assignments on behalf of the Task Force (ESAAMLG, 2018a). ESAAMLG has also a Steering Committee which is an advisory committee on a variety of policy matters. It is chaired by the chairperson of the Task Force.

The ESAAMLG has conducted typologies studies on procurement corruption in the public sector and associated money laundering in the ESAAMLG region, poaching and illegal trade in wildlife and wildlife products, and cash courier-based money laundering (ESAAMLG, 2018b). The group has also conducted a typology study of corruption and systems report, drug trafficking, human trafficking, illicit dealings in and smuggling of motor vehicles, MVTs and currency exchange sectors, money laundering and terrorist financing through the securities market industry in the ESAAMLG region, money

laundering through the real estate sector, and report on smuggling of cigarettes and associated money laundering in the ESAAMLG region.

## **2.4. Chapter Summary**

In this chapter, the researcher reviewed relevant literature cognate to the research objectives of this study. From the literature, the researcher concludes that there is no unanimous definition of money laundering. A variety of definitions have been suggested depending on whether you are looking at it from a legal, economic, security, or social perspective. The debate on whether money laundering is a concealment process, the process of creating a veil of legal cleanliness, or enjoyment of the outcome of the process added further complexity for not having a unified definition. However, this, in turn, creates difficulties in the prevention and suppression of the menace.

Next, the researcher reviewed the literature concerning the operation of money laundering. From the literature, the researcher concluded that money laundering usually occurred after criminal proceeds are generated through the commission of criminal activities commonly known as predicate offenses. Internationally, except for the crime of drug trafficking, there is no universal consensus on the list of predicate offenses. The Palermo Convention and the FATF recommendation leave the issues of predicate offenses to the discretionary power of states. This demonstrates that the predicate offenses of money laundering are country-specific.

Arguably, a complete laundering process has three phases: placement, layering, and integration. However, it is worth noting that not all money laundering processes involve all three stages; some may involve more and some less.

The researcher also reviewed the literature concerning the laundering mechanisms of dirty money. It could be concluded that money laundering is both innovative and highly dynamic criminal industry. Its strategies are evolving. Initially, criminals laundered the proceeds of their illicit activities using financial institutions, physically smuggling of bulky cash from one jurisdiction to another, and through illicit trade practice—trade-based money laundering. However, recent developments indicated that criminals laundered the proceeds of their criminal activities through the concealment of beneficial ownership, virtual currencies, financial securities market, alternative remittance system, and precious metals and stones. It is also worth mentioning that certain non-financial businesses and professionals such as accountants, lawyers, and non-profit organizations would wittingly or unwittingly engage in laundering the proceeds or instrumentalities of crime.

Lastly, the researcher reviewed literature that deals with anti-money laundering measures taken at the international and regional levels. First, the writer reviewed the literature concerning the reasons for combating money laundering. The researcher concludes that the creation, legal essence, and development of a legal order against money laundering could be justified by two major reasons. These are (i) to protect the integrity of the financial system, and (ii) to tackle the negative effect of money laundering on political stability and peace and security of states. Every anti-money laundering regime either at the national or international level encompasses two pillars: prevention and enforcement. The prevention pillar of the anti-money laundering regime is designed to deter criminals from using private individuals and institutions to launder the proceeds of their crimes. The enforcement pillar is designed to punish culprits when, despite prevention efforts, facilitated the successful laundering of the proceeds or instrumentalities of crime.

Since the late 1980s, an international legal order against money laundering was created. The international community has taken several measures such as enacting international legal norms and establishing institutions. The UN, FATF, the Basel Committee on Banking Supervision, Egmont Group of financial intelligence units, World Bank, IMF, and Interpol have enacted conventions, principles, and recommendations for the prevention and suppression of money laundering. Further, these institutions provide technical assistance to member states and conducted a study on laundering mechanisms. Regionally, Ethiopia is a member of the African Union, IGAD, and ESAAMLG—a FATF-stye regional body. These institutions have a platform dedicated to the prevention and suppression of money laundering and its predicate offenses.

In sum, there is a bulky of literature on money laundering and its countermeasures at the global level. However, money laundering and its countermeasures in Africa, specifically in Eastern Africa remain under-researched. This is more evident in Ethiopia. In other words, even though money laundering seriously affects Ethiopia's economy and security, it is one of the most under-researched issues. Thus, this research has been conducted to fill in this gap. Aside from this, the issue of money laundering is highly country and sector-specific. The sources of illicit proceeds, laundering mechanisms, enabling factors, ramifications, and anti-money laundering measures vary across jurisdictions. As a result, the operation of money laundering and its countermeasures in Ethiopia necessitates a comprehensive scientific exploration.

## **CHAPTER THREE**

### **MONEY LAUNDERING AND ITS OPERATION IN ETHIOPIA**

#### **Introduction**

In Ethiopia, money laundering is a growing threat to the country's economy and security. Criminals are engaged in committing acquisitive crimes (commonly known as predicate offenses). Criminals are also involved in laundering the dirty money generated as a result of the predicate offenses. Thus, in this chapter, the researcher looked at the operation of money laundering in Ethiopia. Specifically, the researcher examines the definition of money laundering and predicate offenses incorporated in the country's anti-money laundering legal norms. The sources of illicit money generated in Ethiopia, as well as the laundering mechanisms utilized by criminals, are also explored.

This chapter is organized into three sections. The first section proceeds with examining money laundering and its associated predicate offense in Ethiopia. In this section, the researcher defines money laundering and predicate offenses, and identifies the predicate offenses of money laundering commonly committed in the country. In the next section, the researcher examines the laundering strategies of filthy money. Finally, the last section provides the summary of the chapter.

#### **3.1. Money Laundering and Its Predicted Offenses in Ethiopia**

Having a clear understanding of money laundering and its predicate offenses is the first step in the prevention and suppression of the menace. It is also indispensable for the theoretical understanding of money laundering and the sources of illicit money. Thus, in this sub-section, the definition of money laundering and predicate offenses under the

Ethiopian anti-money laundering legal norms are explored. It is also followed by identifying the criminal activities that produce illicit sources that necessitate subsequent laundering.

### **3.1.1. Defining Money Laundering and its Predicate Offenses in Ethiopia**

Ethiopia has enacted a law to prevent and suppress money laundering and terrorist financing (Proclamation No. 780/2013—henceforth the Ethiopian anti-money laundering law). This law states the *actus reas* of money laundering. Accordingly, money laundering is said to be committed by:

Any person who knows or should have known that a property is the proceeds of a crime and who:

- a) 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 offense to evade the legal consequences of his actions;
- b) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to the property;
- c) acquires, possesses, or uses the property; or
- d) participates in the commission, conspires to commit, attempts to commit or aids, abets, facilitates or counsels the commission of any of the elements of the offense mentioned in paragraphs (a) to (c) of this sub-article; [...] commits an offense [money laundering] and shall [...] be punishable [...] (FDRE, 2013, Art. 29)

This article is a verbatim copy of the UN Convention Against Transnational Organized Crime (UN, 2000, Art. 6). It provides five wider substantive offenses of money laundering, including conversion of criminal proceeds into an ostensibly clean asset, concealment of the illicit origin of the criminal property, acquisition of proceeds or instrumentalities of crime, participation in the commission of money laundering in a principal<sup>12</sup> or secondary<sup>13</sup> capacity, or assisting any person who is involved in the commission of the predicate offense to evade the legal consequences of his actions.

Although describing the *actus reas* of money laundering has a critical role in implementing the anti-money laundering measures, the *actus reas* of money laundering described in the Ethiopian anti-money laundering law has certain ambiguities and flaws. First, the law defined money laundering as the act of hiding or disguising the illegitimate origin of criminal gains/properties. That is to say, disguising the true source of criminal proceeds is considered as the decisive purpose of money laundering. However, this is not the ultimate purpose and did not show the whole spectrum of money laundering. As discussed in Chapter 2, concealment is one of the processes of money laundering, and the ultimate aim of money laundering is to save, invest, or consume the proceeds or instrumentalities of crime in the legitimate economy with a certain level of impunity and anonymity.

Second, the law blurred committing money laundering in a principal or secondary capacity. In the Ethiopian criminal justice system, committing a crime personally or engaging in the commission of criminal activity as a mastermind is considered committing a crime in a principal capacity (FDRE, 2004, Art. 32). Supporting or inciting individuals to engage in criminal activity, on the other hand, is deemed committing the crime in a secondary capacity (FDRE, 2004, Art. 36 and 37). However, the anti-money law blurred participating in the commission of money laundering either in a principal or secondary capacity.

Third, in the country's criminal justice system, assisting a criminal, either by hiding him or helping him to escape prosecution or punishment, or receiving the proceeds of his crime, is considered an accessory after the fact and is treated differently from the main criminal offense (FDRE, 2004, Art. 40). An accessory after the fact is not considered an

accomplice, because there is no participation in the commission of a crime once it has been completed. As a result, assistance given to the criminal after the commission of the crime is an independent crime. However, under the anti-money laundering law, assisting individuals who have committed predicate offenses to evade the legal consequences of their actions is treated as a money laundering offense. And this makes the country's anti-money laundering law inconsistent with the country's established legal norm.

Money laundering has always occurred to launder the proceeds of crime generated from predicate offenses. It is a derivative crime; it is always befallen after illicit proceeds have been generated via the commission of one or several predicate offenses. Hence, what is a predicate offense? The Ethiopian anti-money laundering legislation defines a predicate offense as “any offense capable of generating proceeds of crime and punishable at least with simple imprisonment for one year” (FDRE, 2013, Art. 2(4)). Under this article, all criminal activities that produce proceeds and are punishable by at least one year of simple imprisonment are considered predicate offenses. However, determining one year simple imprisonment as a threshold for the predicate offenses of money laundering is creating difficulties in enforcing the anti-money laundering legislation.<sup>14</sup> Making one-year simple imprisonment a threshold makes every acquisitive crime mentioned in the Criminal Code and other penal statutes a potential candidate for money laundering. Under the 2004 Criminal Code of Ethiopia, functional penal legislation, almost all crimes that produce proceeds of crime are punishable by simple imprisonment for one year and above. A simple theft, for instance, is punishable by up to five years of imprisonment (FDRE, 2004, Art. 665). The application of anti-money laundering law to such misdemeanors is beyond the intended purpose of the law.<sup>15</sup> The purposes of anti-money laundering laws, specifically,

Ethiopia's anti-money laundering law, as stipulated under its preamble, is dual: to circumvent the security and economic threat of money laundering and to become part of the international efforts in combating and preventing this moral panic (FDRE, 2013).

Ethiopia has conducted a national risk assessment<sup>16</sup> of money laundering and terrorist financing from 2013 to 2016. The assessment identifies twenty-two criminal activities<sup>17</sup> as the predicate offenses of money laundering. These include among others, corruption, tax evasion, human trafficking, goods smuggling (contraband), illegal *hawala*, arms trafficking, counterfeiting of products, market manipulation, usury/illegal lending of money, piracy, sexual exploitation, and drug trafficking. In undertaking money laundering prevention and suppression measures, the country's anti-money laundering regime provides due emphasis for criminal activities identified in the assessment.<sup>18</sup> When one looks at the nature of these criminal activities, it is clear that they are serious and most of them are transnational. It is worth mentioning that although the country's anti-money laundering law sets one-year simple imprisonment as a threshold for determining predicate offenses, the prevailing practice reveals that the focus is on serious and transnational crimes. This is consistent with international practice and the intended purpose of anti-money laundering legislation.

### **3.1.2. Sources of Illicit Money**

In Ethiopia, to generate illicit proceeds, criminals have to engage in the commission of several types of acquisitive crimes. The participants of this study<sup>19</sup> elucidate the predicate offense of money laundering frequently committed in Ethiopia by referring to the outcome of the national risk assessment. As previously noted, the assessment identifies twenty-two criminal activities as the predicate offenses of money laundering. The predicate offenses

are divided into three categories based on the amount of illicit proceeds generated, the effect of the criminal activities – the number of victims, and the level of perceived threat: high, medium, and low-level threat offenses.<sup>20</sup>

High-level threat crimes encompass corruption, tax evasion, human trafficking, goods smuggling (contraband), illegal *hawala*, and fraud (FDRE, 2016b, p. 29). These criminal activities produce a huge amount of illicit money, and their societal effect is serious when compared to the other criminal activities identified in the assessment.<sup>21</sup> Institutions engaged in the prevention and suppression of money laundering are giving prime emphasis to these high-level threat crimes. Medium-level threat crimes include arms trafficking, counterfeiting of products, forgery, market manipulation, usury/illegal lending of money, piracy, sexual exploitation, and drug trafficking (FDRE, 2016b, p. 29).<sup>22</sup>

Table 2: Type, occurrence, and threat level of predicate crimes and money laundering, 2012 - 2016

Rating		High Threat						Medium Threat						Low Threat									
Types of predicate offenses		Corruption	Tax evasion	Human trafficking	Smuggling /contraband	Fraud	Illicit transfer of money/ <i>hawala</i>	Arms trafficking	Counterfeiting of products	Forgery	Market manipulation	Usury/illegal lending of money	Piracy	Sexual exploitation	Drug trafficking	Trafficking in stolen goods	Counterfeiting of currency	Environmental crimes	Murder/grievous injury	Kidnapping	Extortion	Breach of trust	Robbery/theft
Occurrence	Predicate offenses	3316	3058	351	5256	16951	187	3634	224	62	7526	75	-	-	2517	-	612	3659	929	21	-	12391	84691
	ML	46	14	-	3	25	10	-	-	2	-	7	-	-	-	-	-	-	-	-	-	-	-

Source: FDRE (2016b, p. 29)

However, according to the participants of this study<sup>23</sup>, “arms trafficking is currently the country's most lucrative criminal business”. The outcome of the risk assessment is depicting Ethiopia's situation before 2016, however, since then, arms smuggling has emerged as a high-level threat crime that generates millions of dollars annually. This signifies that criminals are dynamic and shift their criminal deeds in response to market conditions.

Furthermore, trafficking in stolen goods, counterfeiting of currency, environmental crimes, murder/grievous injury, kidnapping, extortion, breach of trust, and robbery/theft are identified as low-level threat offenses. However, as some of the research participants stated<sup>24</sup>, “the criminal world is exceedingly dynamic and the level of threat of the predicate offenses will vary accordingly”.

In Ethiopia, the aforementioned twenty-two criminal acts are the main sources of illicit money. To use the proceeds of criminal activities with a certain level of impunity and anonymity laundering the dirty money is inexorable. This indicates that money laundering and the sources of illicit money—predicate offenses are intimately linked, and the former is a derivative of the latter.

### **3.2. Money Laundering Strategies in Ethiopia**

Criminals in Ethiopia have not only committed the predicate offenses identified above but have also employed several schemes to launder the proceeds or instrumentalities of their unscrupulous activities. However, the common laundering mechanisms are money laundering using financial institutions, illegal *hawala*, shell companies, cash-based, and trade-based money laundering.<sup>25</sup> Money laundering utilizing financial technologies or

virtual currencies has also been identified as a new type of laundering strategy that demands due attention.

### **3.2.1. Money Laundering Using Financial Institutions**

For more than two decades, Ethiopia has registered commendable economic growth and development (IMF, 2018; World Bank, 2017). The country's economic growth and development, as well as the development of the country's financial sector, are reinforcing each other. In other words, the country's economic growth and development have a significant effect on the development of the country's financial sector and the financial sector has an upper hand in supporting the country's economic growth and development.<sup>26</sup> Ethiopia's financial institutions, specifically banks, have been rapidly growing in recent years, with several new banks having been launched or under formation. This reflects the improvement of the bank sector's operating environment as well as the sector's contribution to the country's economic growth.

Laundering criminal proceeds using Ethiopia's financial institutions has two contradictory manifestations. On the one hand, the country's economy is relatively isolated from the regional or global economy (World Bank-ESAAMLG, 2015). There is vigorous control of foreign currency (FDRE, 2016b). All commercial banks are fully owned by Ethiopians or Ethiopian legal entities (until the end of 2019) (FDRE, 2019b). It is uncommon to send money from Ethiopia to a foreign country, and non-resident foreigners are not permitted to open bank accounts in Ethiopia's banks. Ethiopia's financial institutions are providing limited services—limited to deposit/savings accounts, the provision of loans, and limited trade finance to export and import businesses (FDRE, 2016b). Products and services with major aspects of non-face-to-face transactions, such as

card banking, mobile banking, and internet banking, are in their infancy. Banks in Ethiopia have no significant business relationship with citizens of customers/businesses with offshore interests or with countries that are tax havens or with countries blacklisted by FATF or other institutions (FDRE, 2016b, p. 69). For these reasons, few participants of this study<sup>27</sup> concluded that it is highly unlikely that Ethiopia's financial sector would be used to launder funds from abroad.

Even though the above argument appears to be sound, this study finds that the country's financial institutions are susceptible to money laundering and utilized as a platform for it.<sup>28</sup> Criminals use the country's financial institutions to launder the proceeds and/or instrumentalities of their criminal activities by opening multiple bank accounts in the same bank, opening different bank accounts in different banks, using a fictitious name to open a bank account, and opening a bank account in the name of their children, grandchildren or other family members.<sup>29</sup> After the account is opened, they deposit the illicit money and transfer it from one bank account to another.<sup>30</sup>

Following the introduction of cash transaction reporting, criminals employed a surfacing technique, which is splitting a large sum of money into small amounts and depositing it in financial institutions.<sup>31</sup> Sometimes, criminals secure an import-export business license and open a letter of credit, and eventually use the financial institution to deposit and transfer the proceeds of their illicit activities.<sup>32</sup> That is to say, the country's financial institutions either wittingly or unknowingly launder the proceeds of crime by facilitating and financing import and export businesses or transferring money to foreign jurisdictions.

Although financial institutions, specifically the banking sector, are used as a money laundering scheme, their controlling mechanisms are more vigorous as compared to other sectors. This has displaced criminals and their mechanisms from the more controlled banking sector into still less controlled parts of financial markets, as well as from financial markets to other sectors. These new sectors comprise export-import commerce, illegal *hawala*, cash-based money laundering, and other non-financial businesses and professions.

### **3.2.2. Trade-Based Money Laundering**

In Ethiopia, trade-based money laundering is widely explained as a *modus operandi* of money laundering. In this study, it has become evident that trade-based money laundering is one of the most sophisticated methods of cleaning dirty money.<sup>33</sup> This money laundering mechanism is highly cognate to international trade mis-invoicing<sup>34</sup> and other trade-related offenses. According to data from Global Financial Integrity, 55 percent to 80 percent of illicit financial outflows leaving Ethiopia, accounting for 6 percent to 23 percent of the country's total trade value, originated from trade mis-invoicing (Kukutschka, 2018, p. 6). Trade-based money laundering in Ethiopia is typically carried out using three techniques: misrepresentation of price, misrepresentation of the quantity of goods/services, and fictitious trade activities.

#### ***Misrepresentation of price***

Misrepresentation of price refers to the practice of under/over-invoicing of import and export goods/services.<sup>35</sup> In this money laundering scheme, what is under or over-invoiced is the price of export or import items. This occurs when the exporter and importer have agreed to collude. Under-invoicing occurs when an exporter transfers value to an importer at a price below the “fair market” value. The amount paid for the good or service is lower

than the amount received by the exporter when it is sold on the open market. Under-invoicing is committed to both import and export items. In under-invoicing imported goods, importers utilize fraudulent contracts (also known as a letter of credit) that indicate a lower price than the actual price.<sup>36</sup> On the contrary, in under-invoicing export goods, the exporter utilizes fraudulent contracts that indicate the lower price of the export goods than the actual price.<sup>37</sup> Bank requests contracts made between the local importer/exporter and the foreign supplier/importer to process the deal. However, they make extremely limited efforts to verify the credibility of the price provided in the contracts.<sup>38</sup> Trade-based money laundering is difficult for bank compliance officers.<sup>39</sup> The bank officers deal with the documents, not the goods. In the country, there is no national price index or directive that the banks can use to cross-check the credibility of the price provided in the contract.<sup>40</sup>

Alternatively, by invoicing the good or service at a price above the fair market price, the exporter receives value from the importer, as the payment for the good or service is higher than the value that the exporter receives when it is sold on open market. Importers use fake contracts (a letter of credit) that indicate a higher price than the actual price, to get foreign currency from banks.<sup>41</sup> Investors in Ethiopia tend to over-invoice products they import to get extra foreign currency and to avoid income tax at the production stage of the business.<sup>42</sup> An important legal provision that encourages investors to over-invoice their imports is the fact that most of their imports are exempted from customs duties as an incentive to attract foreign direct investment.

Furthermore, under Art. 20 of Ethiopia's investment law (FDRE, 2020), a foreign investor has the right to transfer foreign currency out of Ethiopia from profits and dividends, payments related to technology transfer, payments for collaboration agreements,

principal and interest payments for external loans, proceeds from the transfer of shares or an enterprise to a domestic investor, proceeds from the sale, capital reduction or liquidation of an enterprise or compensation paid for them. The law allows investors to remit money without rigorous checks on the origin of the money. This opens the door for illicit financial flows, capital flight, and money laundering. Proceeds of crime would be remitted to a foreign jurisdiction in the name of profits and dividends, payments concerning technology transfer, and others.<sup>43</sup>

In sum, this study finds that under/over-invoicing of export and import items is utilized as a money laundering scheme in three ways. First, the business deal itself is used to launder the proceeds of crime. The letter of credit, as well as the bank transactions, are used as mechanisms for laundering dirty money. Second, specifically in under-invoicing of import items, payment for the goods is lower than the value of the good at fair market price, but an additional under-table payment is usually paid. The proceeds of crime would be used to make this under-table payment.<sup>44</sup> Third, in over-invoicing import items, the exporter receives a higher value than the actual price of the imported goods or services. The trader over-invoiced the imported item to get an extra/additional foreign currency from the banks. In Ethiopia, the administration of foreign currency is highly centralized, and its exchange rate is determined by the government through its National Bank/the Central Bank of the Country/. In the country, there is an acute shortage of foreign currency reserves. Foreign currency is only sold in the head offices of each commercial bank designated for that purpose. Therefore, traders, to obtain an extra foreign currency, employ the technique of over-invoicing of imported goods and services. In this regard, (i) the proceeds of crime would be used to purchase foreign currency, or (ii) the letter of credit would be utilized to

transfer capital from Ethiopia to the exporter's country, and it would provide a legal façade for the importer's illicit activities. That is to say, the letter of credit is increasingly being utilized to launder the proceeds or instrumentalities of criminal activities.

***Misrepresentation of the quantity of goods/services***

By misrepresenting the quantity of export/import goods/services, criminals laundered the proceeds generated from illicit activities. Commonly, this is known as over/under-shipments of goods/services. Unlike over/under-invoicing, what is misstated is not the price, but it is the quantity of the goods and services that are exported or imported. In the under-shipment of export goods, few goods are exported as compared to what has been written in the letter of credit.<sup>45</sup> In this laundering scheme, the correspondence bank makes a payment to the Ethiopian exporter for goods stated in the letter of credit. However, the Ethiopian exporter exported only a few goods. So, the deal between the importer and exporter—the letter of credit is utilized as a shield to move capital from abroad to Ethiopia.<sup>46</sup> This approach was occasionally employed by Ethiopian "exporters" to transfer filthy money amassed in foreign jurisdictions. However, according to the collected data, such method is uncommon in the country's export-import trade practices.<sup>47</sup>

In contrast, in the under-shipment of import goods, few goods are imported as compared to what is written in the letter of credit.<sup>48</sup> This laundering scheme is more prevalent in the country's export-import trade system. In this laundering scheme, the bank allowed foreign currency for the importer for goods stated in the letter of credit. However, the importer imported few goods as compared to the deal. The deal between the importer and exporter—the letter of credit is utilized as a shield to (i) obtain foreign currency from banks, and (ii) move capital from Ethiopia to the exporter's country. That is to say, the

proceeds of crime would be used to buy foreign currency, and the letter of credit would disguise the illicit origin of the proceeds of crime.<sup>49</sup>

Aside from the quantity, the traders would falsely describe the quality or the type of goods that were being traded. Inexpensive goods are invoiced as expensive goods.<sup>50</sup>

### ***Fictitious trade activities***

Fictitious trade activities including fictitious export and import, and multiple invoicing of export and import goods, are another technique of trade-based money laundering committed in Ethiopia. In fictitious export and import (phantom shipment), the traders prepare a false document that shows the importation of goods, but the goods are not imported. The trader demanded foreign currency from the banks, which the banks granted with the intent of importing the stated goods. The goods were not imported; however, the trader came up with a counterfeit document that showed their importation. On the side of exportation, the traders brought documents that showed the exportation of goods such as coffee; however, the coffee would either be sold in Addis Ababa or declared as a missed product during transportation.<sup>51</sup> This could happen for various reasons. However, in Ethiopia, such practice is one of the laundering strategies. Criminal entrepreneurs used such illicit tactics to obtain foreign currency, and the illicit money was then used to buy the currency.<sup>52</sup> In this regard, the “deal (the letter of credit)” is used as a money laundering scheme.

Multiple invoicing of export and import goods is committed by issuing more than one invoice for a single international trade transaction. It is the practice of invoicing the same commodity more than once. Although fictitious pricing can be involved, unlike over and under-invoicing, there is no need for the importer or the exporter to misrepresent the

price of the good on the commercial invoice. And to increase the level of complexity of the scheme, sometimes fraudsters may use several banks to make payments.<sup>53</sup> In this case, a single transaction is “sold” multiple times on paper under various instruments. Though this is performed on both imported and exported items, it is more common with imported goods.<sup>54</sup>

Fictitious trade activities are mostly used, among others, to obtain foreign currency and launder the proceeds of crime.<sup>55</sup> This type of illicit practice, fueled by corruption, transfers foreign currency from Ethiopia to other countries. As a result, illicit financial flows, capital flight,<sup>56</sup> and eventually money laundering became proliferated. In fictitious trade activities, the proceeds of crime would be used to buy foreign currency from multiple banks.

In sum, in Ethiopia, trade-based money laundering is a strategy used to launder the proceeds of illicit activities through complex trade transactions and networks. This money laundering strategy is intricately linked with others, such as money laundering using financial institutions and cash-based money laundering. Financial institutions engage in trade-based money laundering either wittingly or unwittingly by writing a letter of credit, or financing export and import trade.

### **3.2.3. Money Laundering through Illegal *Hawala***

Money launderers in Ethiopia used both legal and illegal *hawala* systems.<sup>57</sup> Legal *hawala* service is a money transfer service provided by licensed providers such as banks and remittance agents. This channel has been utilized by criminals to move money from one place to another, and it is also utilized to launder tainted money. Criminals also either use

illegal *hawala*<sup>58</sup> or establish their own *hawala* networks to transfer dirty money from one jurisdiction to another.

In Ethiopia, illegal *hawala* is a predicate offense of money laundering, which is also utilized as an instrument for laundering criminal proceeds.<sup>59</sup> According to the amendment of Art 3(1) of the Banking Business Proclamation No. 592/2008, it is prohibited to transact banking business or provide digital financial services in Ethiopia without obtaining a banking license or digital financial services license or authorization from the National Bank. Engaging in *hawala* services without a license from the National Bank is a crime (FDRE, 2019b; FDRE, 2008). It is punishable by rigorous imprisonment of 10 to 15 years (FDRE, 2011, Art. 35 (1)). This makes illegal *hawala* a predicate offense of money laundering.

Illegal *hawala* is used to launder the proceeds or instrumentalities of criminal activities. Though obtaining the exact figure of money inflow or outflow through unregulated *hawala* services is difficult, according to the research participants of this study<sup>60</sup> and suspicious transaction reports collected from financial institutions indicated that Ethiopia had a large number of unregulated *hawala* services providers.

Several individuals have participated in the illegal *hawala* network as money senders, money collectors, controllers or *hawaladars*, foreign currency buyers, agents of currency buyers, transmitters, and local currency receivers.<sup>61</sup> Money collectors are individuals who live in countries where money is sent and whose main task is to collect money from Ethiopians and anyone who wants to send money to Ethiopia.<sup>62</sup> A participant of this study specifically noted, “these individuals have a good relationship with money senders and have built trust with their customers”.<sup>63</sup> *Hawaladars* (known as controllers and

money brokers) are trusted individuals or institutions in charge of arranging and managing illegal *hawala* services.<sup>64</sup> These individuals are living in foreign countries to arrange for the delivery of an equivalent value to its ultimate destination in Ethiopia.

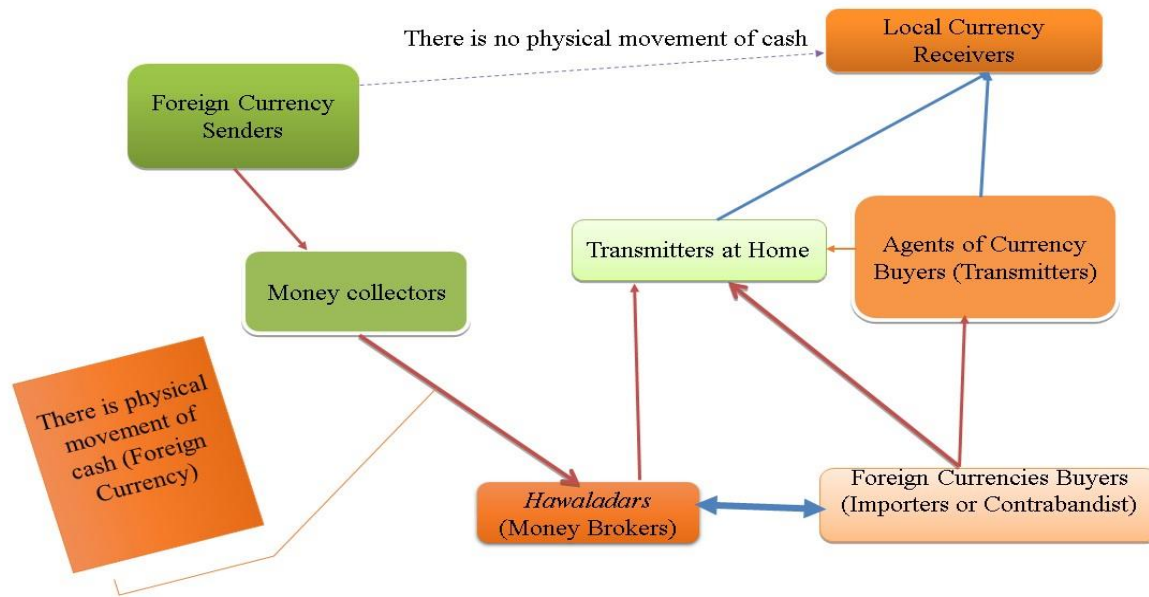
*Hawaladars* usually collect foreign currency from money collectors or senders, who then sell it to Ethiopian importers or other foreign currency buyers. The acute shortage of foreign currency in the country forced importers to buy foreign currency collected by *hawaladars*.<sup>65</sup> Importers or foreign currency buyers have agents or representatives in Ethiopia. The agents made a payment to the representatives of the *hawaladars* located in Ethiopia commonly at the capital.<sup>66</sup> Although the importer bought the foreign currency in foreign jurisdictions, the importer's representative pays the *hawaladar's* representative in local currency (Ethiopian Birr).<sup>67</sup> The payment made to the *hawaladar's* representative by agents or representatives of importers or foreign currency buyers would be the proceeds of criminal activities. Proceeds from criminal activities such as tax evasion, illegal foreign currency exchange, under and over-invoicing of international trade, contraband, arms trafficking, illicit financial flows, and human trafficking are used for payment.<sup>68</sup> Representatives of the *hawaladar* or transmitter distributed the money obtained from the agent of currency buyers to the customers—the end-users of the money transferred through unregulated *hawala* system. Sometimes, these are called local currency receivers. The three-stage payments (i) the payment made to the *hawaladars*, (ii) the payment made to the *hawaladars'* representative, and (iii) the payment made to the end-users are all essential methods of money laundering. The *hawaladars* would get money from the senders/money collectors. This money would be the proceeds of crime. On the other side, the payment

made to the representative of *hawaladars* would also be the proceeds of crime. Finally, *hawaladar's* agent pays the illicit money to the illegal *hawala* system end-users.

This money laundering scheme is transnational. It stretches from Ethiopia to the rest of the world. In this money laundering scheme, both Ethiopians and foreigners are involved.<sup>69</sup> The country's financial institutions are also involved in this laundering mechanism. *Hawaladar's* representative used financial institutions to make payments to the end-users.<sup>70</sup> Conducting multiple local transfers at one time, transferring money to various jurisdictions in the country, multiple deposits in different bank accounts, large cash transactions, depositing and immediately withdrawing, use of multiple bank branches in a day, conducting transactions using cheques, and using third parties are some of the red flag indicators of illegal *hawala* identified by the Ethiopian Finance Intelligence Center (FIC, 2014).

The pictorial representation of money laundering through illegal *hawala* is depicted as follows:

Figure 4: Money laundering through illegal *hawala*



Developed by the researcher (September 2020)

### **3.2.4. Cash-Based Money Laundering**

In Ethiopia, cash-based money laundering is one of the techniques that criminals use to clean dirty money into ostensibly legitimate money. Although it is changing, Ethiopia remains a cash-intensive country. Approximately more than 65 percent of the country's population is unbanked and relies on cash for day-to-day transactions (World Bank, 2018, p. 37). Even the banked society withdraws money from their bank account to conduct financial transactions.<sup>71</sup> It is, therefore, usual for relatively large cash transactions to be undertaken, including when purchasing high-value assets, such as real estate and vehicles.

This study finds that in the country, criminals use cash to generate criminal proceeds. Criminals also utilized cash transactions or physical transportation of cash to foreign jurisdictions as money laundering schemes. Cash is a bearer instrument that is anonymous and belongs to a person who holds it. When you exchange cash for goods, the transaction is done instantly, there is no need for an intermediary to approve it, and it is difficult to trace.<sup>72</sup> Thus, due to the anonymity and untraceability of cash and its transactions; criminals use cash to generate criminal proceeds, and cash transactions are essential platforms to launder illicit proceeds. Due to the lack of an audit trail, money laundering via cash-based transactions is particularly enticing.

Aside from cash transactions, the physical transportation of cash from Ethiopia to foreign jurisdictions is one method of money laundering. Cash is smuggled from Ethiopia to Djibouti, Kenya, Somalia, and Sudan, respectively, through the border towns of Dewale, Moyale, Metema, and Togo Wuchale.<sup>73</sup> Addis Ababa Bole International Airport is also becoming an important exit point for cash smugglers (Alfa Shaban, November 01, 2017). The government of Ethiopia recognized this and declared a huge amount of foreign

currency and Ethiopian Birr outflows from the country, specifically to neighboring countries such as Djibouti, Somalia, and Sudan (Quartz Africa, September 16, 2020). However, the participants of this study stated<sup>74</sup> that “the Ethio-Somalia border is the prime cash smuggling route in the country”.

Several individuals have participated in the cash smuggling network as foreign currency collectors, couriers, and border smugglers.<sup>75</sup> The collectors gather foreign currency from several sources. The main sources are money sent through illegal *hawala* by Ethiopians living abroad or Ethiopian diaspora, visitors from abroad, participants of different conferences, summits, and meetings, and embassies and international organizations in Addis Ababa (FIC, 2016b). Foreign currency can also be obtained from travel agents, hotels, and jewelry shops.<sup>76</sup>

The money collectors gather cash, usually foreign currency, through unregulated bureaus *de change*—a black market. The foreign currency generated in the black-market exchange would be the proceeds of criminal activities, and the payment in exchange of the foreign currency (the Ethiopian Birr) would also be the proceeds of crime.<sup>77</sup> Individuals can easily integrate the proceeds of illicit foreign currency exchange into Ethiopia’s legitimate economy by changing the foreign currency into Ethiopia Birr. As previously indicated, the dominance of cash transactions would facilitate the integration of proceeds of illegal foreign exchange into the legitimate economy. Moreover, in collecting foreign currency, criminals utilized shell companies.<sup>78</sup> In Addis Ababa, around the National Bank of Ethiopia and the head offices of most commercial banks, there are small businesses engaged in collecting foreign currency.<sup>79</sup> These small businesses are used as a shell for illegal foreign exchange transactions.

The collected money is packed and then delivered to transmitters. Initially, the money is transported from Addis Ababa, Merkateo—the main market of the capital to Adama—79 kilometers east of Addis Ababa.<sup>80</sup> When it arrives in Adama, usually, the car or the plate number of the car is changed—to avoid detection by law enforcement agencies due to fear of whistleblowers.<sup>81</sup> The money is carried from Adama to Aweday and subsequently to Jigjiga or Togo Wuchale. To avoid being tracked by law enforcement agencies, they bury the dollars/euros inside of Khat or automobile tires, doors, fenders, bumpers, fuel tanks, and other secret compartments of trucks (FIC, 2016). In Jigjiga or Togo Wuchale, a market at the Ethio-Somalia border, the money is transferred to border smugglers. The money is smuggled using a car, a physical person, or an animal.<sup>82</sup> Furthermore, the money is smuggled through the main road or areas outside of border security/customs checkpoints.

After arriving in Somalia, the foreign currency can either re-enter Ethiopia as earned from “legitimate” export business, be sold on an open market in Somaliland, flow to Persian Gulf countries, or be used to buy illicit goods/contraband.<sup>83</sup> At this stage, the cash is separated from the predicate offenses that generated it, and the audit trail has been broken. In a nutshell, the dirty money is effectively laundered. In Somaliland, foreign currency can be moved here and there with bags and plastics or sold on the open market.<sup>84</sup> Togo Wuchale is the second place—next to Addis Ababa, where all commercial banks and money transfer agents have opened their branches. In Ethiopia, there are 19 commercial banks, and all of them have a branch office in Togo Wuchale. Even though the banks opened branch offices to conduct ordinary business, the branch offices are highly involved in the collection of foreign currency.<sup>85</sup> However, the banks situated in Togo Wuchale are

vulnerable to money laundering and are engaged wittingly or unwittingly in laundering the proceeds of illicit activities.<sup>86</sup> That is, banks are facilitating the re-entry of the illegal money to Ethiopia as earnings from legitimate export businesses.

Cash-based money laundering, specifically money laundering through physical transportation of cash, is always transnational. Both Ethiopians and foreigners are involved in this money laundering mechanism. As explained above, this laundering scheme is also facilitated by financial institutions.

### **3.2.5. Money Laundering through the Use of Shell or Anonymous Companies**

Criminals either use anonymous or shell companies to launder the proceeds of their illicit activities. An anonymous company is a corporate entity that has disguised its ownership to operate without scrutiny from law enforcement or the public. Criminals sometimes open trade centers with the help of a third-party license or an unknown person. In Addis Ababa, different trade centers have opened, the centers have managers, chasers, but the owners are unknown.<sup>87</sup> The centers are used for a variety of illicit activities. However, when the law enforcement agencies attempted to locate the center's owner or beneficiary, they discovered either a person living on the street, a person who had died, or an unknown person.<sup>88</sup> Those "phantom firms" can open bank accounts and wire money like any other company, making them a favorite tool for money launderers to hide their businesses and assets from authorities.<sup>89</sup> In the country, specifically in Addis Ababa, there is a widespread practice of anonymous companies.

In the country, issues of ownership and beneficiary are not well regulated. Issues such as: who is the owner (beneficiary) of a building? For what purpose was the building constructed? What kinds of activities are done in the building? Are the activities performed

in the building in line with the intended purpose of the building? are not addressed. Therefore, criminals exploited this gap for their purpose.

Aside from anonymous companies, shell companies are used to disguise illicit activities and the proceeds or instrumentalities of those acts.<sup>90</sup> A shell company is a façade company that is registered and licensed to do a business but lacks significant assets and does not carry out significant legal operations. This company is primarily involved in illegal activities and the registered legal business license is being utilized as a shield–laundering strategy for the illegitimate activities.<sup>91</sup> In the country, specifically in the capital, there is a widespread practice of shell companies. The shell companies include small shops for clothes and cosmetics, bars, and others. These are open to run a “legitimate” business. However, they have been found running fraudulent activities under the guise of “legitimate” businesses. They engage in several illicit activities, including foreign currency exchanges, drugs sales, recruiting victims of human trafficking, and making international calls out of the recognition of the Ethiopian Telecommunication.<sup>92</sup> In general, criminal entrepreneurs have used shell or anonymous companies as facades to conceal, disguise, or transfer the proceeds or instrumentalities of their criminal activities.

### **3.2.6. Newly Emerged Laundering Strategies**

Recent developments in information technology, such as the advent of financial technologies and virtual assets, are potential areas for money launderers. So, this section explored the newly emerged money laundering strategies in Ethiopia.

### ***Money Laundering through Financial Technologies***

This study finds that recently introduced financial technologies (fintechs) will raise the vulnerability of the Ethiopian financial sector to money laundering and will become one of the newly emerging laundering techniques of filthy money.<sup>93</sup> Fintechs include mobile banking, mobile payment, internet banking, and automated teller machines (ATM). In simple terms, fintechs are digital bank accounts and e-wallet services. Fintechs are engaged in processing the payment system or transactions of digital currency, e-money. Digital currency has a high degree of anonymity and can be used to transact transnationally. This makes fintechs more vulnerable to money laundering and other illicit activities. Thus, there is a fear among experts<sup>94</sup> in the field that such kind of payment system may become one of the emerging money laundering strategies.

Aside from fintechs, the introduction of new laws in the country's financial sector, such as allowing the Ethiopian diaspora to invest in the sector, increases the vulnerability of the sector to money laundering, notably transnational money laundering. Ethiopia's financial system was very localized and vigorously controlled (World Bank-ESAAMLG, 2015). However, at the end of 2019, the government of Ethiopia enacted a law that allows the Ethiopian Diaspora to invest in the financial sector. Due to the engagement of the Ethiopian Diaspora in the financial sector, Ethiopia's financial institutions would be de-localized and be integrated into the international financial system.<sup>95</sup> Although the integration of the financial system has several benefits, it would cause pandemonium.<sup>96</sup> In a nutshell, the door may open for the criminal as well. The country's lack of adequate experience in handling transnational criminality<sup>97</sup> accompanied by weak law enforcement

and regulation capacity<sup>98</sup> would exacerbate the vulnerability of the financial sector to transnational criminals, including money launderers.

### ***Money Laundering through Virtual Currencies***

Money laundering through virtual currencies is one of the newly emerged money laundering strategies identified in this study. The launching of once own and the use of cryptocurrencies has grown alarmingly. This trend has spread to all corners of the world and has reached Ethiopia. In May 2018, Getahun Mekuria, the then Minister of Science and Technology, signed an agreement with Charles Hoskinson, Chief of Executive of Hong Kong-based Input Output HK (IOHK) (Wolfson, April 30, 2019). The company provides Cardano, a type of blockchain record management application. The Memorandum of Understanding (MoU) was signed to provide training on how to develop cryptocurrency in Ethiopia and to create a new digital payment system that will allow six million users to pay their power and electric bills with cryptocurrency (Wolfson, April 30, 2019).

Aside from the government initiative, several Bitcoin networks (Bitcoin service providers) exist in Ethiopia. The Bitcoin networks such as AchiversKlub School of Cryptocurrency<sup>99</sup>, Bit Club, and AWS Mining are doing extensive work to introduce and expand the Bitcoin business in Ethiopia. The founders of the clubs are Ethiopians living abroad (Capital Ethiopia, May 18, 2020). Since 2016, these clubs have been hosting meetings in Addis Ababa to inform people about how Bitcoin works and how they can invest in it. They encourage individuals either to buy Bitcoin or invest in Bitcoin mining. The meeting was so crowded that some people even had to return home. Besides, they use social media outlets such as YouTube, Facebook, Instagram, Telegram, WhatsApp, and Twitter to advertise the business.

Although the expansion of Bitcoin in Ethiopia is yet at its infant stage, a growing number of Ethiopians are investing heavily and profiting at unheard-of margins. Many Ethiopians are joining the business of Bitcoin by purchasing it. However, some Ethiopians are also engaged in mining Bitcoin.

In Ethiopia, there are two arguments about the business of virtual currency in general and Bitcoin in particular. Its ardent supporters, specifically, Bitcoiners, argue that Bitcoin provides financial freedom so that users' money is safe and secure, can be deposited and withdrawn quickly and easily, and it eliminates exposure to wrongful banking regulations (Kaleab, 2019). Further, they state that Bitcoin can even solve the foreign currency shortage of Ethiopian importers. They encourage importers to invest in Bitcoin, stating that they can order items they want to import from their Bitcoin wallet without waiting for government regulation and foreign currency. These promoters consider Bitcoin as a good opportunity—decentralized governance of networks is regarded as innovative and ultimately more effective than traditional centralized financial governance systems in an era of rapid and unpredictable technological change. Moreover, they argue that criminal groups are not interested in cryptocurrencies as it is difficult to use cryptocurrencies where fiat money is more available and it is challenging to get access to the cryptocurrency form of payment in the country.

However, its opponents argue that this business is against the financial regulation of the country. They state that the main source of income comes in the form of commissions and some experts in the field call it a pyramid scheme which is prohibited by Ethiopian law. Moreover, they consider it as one mechanism of capital flight and its doors are open for criminals to exploit and launder the proceeds of their illicit activities. The transactions

conducted by Bitcoin are not verified by a centralized government organ but are conducted through decentralized peer-to-peer networks. Because of the anonymity it provides, the virtual currency industry is attractive to nefarious actors. Experts from the Ethiopian Financial Intelligence Center noted<sup>100</sup> that money laundering through cryptocurrencies, specifically Bitcoin, would be one of the laundering mechanisms of filthy money in the country. However, except the Center, the law enforcement institutions, specifically the police and prosecutors, have limited awareness about what cryptocurrency is and the challenges of cryptocurrency to law enforcement work.

### **3.3. Chapter Summary**

This chapter first examines the definition of money laundering and associated predicate offenses in Ethiopia. Money laundering in Ethiopia is defined as the process of concealing the proceeds or instrumentalities of crime. The definition of money laundering adopted in the country is similar to the definition of money laundering provided by the FATF and the UN Convention against Transnational Organized Crime (Palermo Convention). Scholars such as Gallant (2005), Kumar (2012), and Reuter and Truman (2005) have also defined money laundering as the process of concealing the proceeds or instrumentalities of crime. Arguably, a complete money laundering scheme has three processes: placement/concealment, layering/converting, and integration. Money laundering aims to disguise not just the illicit source of criminal gains, but also to obstruct audit trails and save, invest, and enjoy criminal proceeds with a certain level of impunity and anonymity. Thus, defining money laundering as the process of concealing illicit proceeds falls short of capturing the whole purpose and picture of money laundering.

The Ethiopian anti-money laundering law has also defined the predicate offense of money laundering as any offense capable of generating proceeds of crime and is punishable by at least one year of simple imprisonment. This is akin to the FATF's standard.<sup>101</sup> However, in comparison to the Palermo Convention,<sup>102</sup> Ethiopia's law intends to include the widest range of crimes as predicate offenses of money laundering. Irrespective of the legal norms, as indicated in the national risk assessment, the country's anti-money laundering system provides due emphasis for criminal activities that are serious and transnational.

This study identifies the predicate offenses of money laundering commonly committed in Ethiopia. Internationally, the mandate to designate predicate offenses is given to the exclusive jurisdiction of states. As a result, in 2016, the government of Ethiopia conducted a national risk assessment of money laundering and its predicate offenses. The assessment identified twenty-two criminal activities as predicate offenses of money laundering. These criminal activities are nearly similar to the predicate offenses designated by the FATF.<sup>103</sup> Based on the amount of illicit money generated, the number of victims and perceived threat; those crimes are categorized as high, medium, and low-level threat crimes. Criminal entrepreneurs launder the proceeds or instrumentalities of those illicit activities after generating filthy money by committing one or more of the predicate offenses.

Second, the study looked into the *modus operandi* criminals employed to launder dirty assets (money). It finds that criminals employed several techniques, however, the main ones are money laundering using financial institutions, trade-based money laundering, cash-based money laundering, money laundering using illegal *hawala*, shell

companies, or anonymous beneficiaries. Criminals have recently been suspected of using financial technologies and virtual currencies to launder the proceeds of their illicit activities.

The laundering strategies are extremely interdependent, and their distinction remains blurred. For instance, banks are either wittingly or unwittingly engaging in trade-based money laundering when they facilitate, settle, or finance international trade transactions such as through processing wire transfers, providing trade finance, and issuing letters of credit and guarantees. The banks are also engaged in money laundering through the physical transportation of cash to foreign jurisdictions. In this laundering scheme, banks are involved in the laundering process by helping criminals to re-enter the smuggled foreign currency into Ethiopia as earned from “legitimate” export-import businesses. Furthermore, this study finds that the demarcation between the laundering strategies, notably between illegal *hawala* and trade-based money laundering, cash-based money laundering and money laundering through illegal *hawala* or money laundering using shell companies and trade-based money laundering, remains hazy.

Identifying the sources of illicit money and the mechanisms utilized by criminal entrepreneurs to launder the filthy money, led the researcher to examine the risk factors (enablers) for the growth of money laundering in Ethiopia. Therefore, in the following chapter, the researcher explains the structural factors that exist in the country’s political and economic system that present criminals with new opportunities to commit crimes and launder their proceeds.

## **CHAPTER FOUR**

### **THE POLITICAL ECONOMY OF MONEY LAUNDERING IN ETHIOPIA**

#### **Introduction**

Since 2003, Ethiopia has had one of the world's fastest-growing economies (IMF, 2018; Moller, 2015; World Bank, 2016). This economic growth is also integrated with regional and global economies. The greater the economic progress of the country, the higher the integration of the economy with global and regional economies, and the better it is for criminals (FDRE, 2016b). Criminals want their share from the growing economy<sup>104</sup> and the removal of barriers to the free movement of goods and capital—globalization—provides more opportunities for those who would opt to conceal their criminal misdeeds either through investment or other mechanisms. Furthermore, the cash-intensive nature of the country's economy, the rise in economic growth associated criminal offenses, the development of underground banking activities, the scarcity of foreign currency reserves, and the existence of societal demand for illicit goods and services are all economic factors that provide an attractive environment for money launderers.

This study also finds that the rise of an elite cartel model type of systematic corruption, limited institutional capacity to prevent and detect money laundering, deficiencies in the country's anti-money laundering legal norms, and lack of a national identity card system as political factors that provide ripe terrain for money launderers. The country's geopolitical location, porous borders, limited cross-border cooperation, and

information sharing all contributed to the country's vulnerability to money laundering and associated predicate offenses.

Thus, this chapter rigorously examines the risk factors in Ethiopia's economy and political system that provide a ripe terrain for money launderers. It also deals with the country's geopolitical position and its contribution to money laundering and associated predicate offenses. Finally, the last section provides a summary of the chapter.

## **4.1. Money Laundering and Ethiopia's Economy**

The type of economy a country operates contributes to the prevention or proliferation of money laundering and other criminal activities. This study finds that the nature of Ethiopia's economy, which is primarily cash-intensive and informal, presents criminals with new opportunities to commit crimes and launder their proceeds. The rise of economic growth associated criminal offenses, the emergence of underground banking systems, the existence of an acute shortage of foreign currency reserves, and societal demand for certain licit/illicit goods and services and the market gap to meet those demands are creating an appealing environment for criminal entrepreneurs to commit acquisitive crimes, launder, and amass illicit wealth.

### **4.1.1. Cash Intensive and Informal Economy**

Being predominately a cash-based economy is one of the structural factors that pose Ethiopia to the threat of money laundering. Ethiopia is a cash-intensive country, where almost all market transactions are conducted using cash (World Bank-ESAAMLG, 2015). The cash-intensive nature of the country's economy attracts criminals to generate the proceeds of crime in cash and integrate it into the legitimate economy.<sup>105</sup> In the national

risk assessment, the government of Ethiopia has also identified being a cash-intensive economy as one of the main vulnerabilities of the country to money laundering and terrorist financing (FDRE, 2016b).

^In Ethiopia, individuals prefer cash transactions to credit-based transactions for various reasons. Those reasons include inaccessibility of financial institutions, financial illiteracy, cultural resistance to banks and other financial institutions, widespread acceptance of cash by society, low confidence in the banking system, the absence of efficient and low-cost banking infrastructure, and ineffective banking supervision and regulation (National Bank of Ethiopia (NBE), 2017a).

Ethiopia's formal financial institutions are not adequately accessible. Financial institutions such as banks, microfinance institutions, and insurance companies are geographically concentrated in cities, specifically in the capital and regional state centers, leaving rural areas under-served.<sup>106</sup> As of March 31, 2016, 36 percent of bank branches and 54 percent of insurance branches, were operating in Addis Ababa (NBE, 2017a, p. iii). This demonstrates Ethiopia's financial institutions are both demographically and geographically skewed around cities; yet, the majority of Ethiopians live in rural areas, pursuing agrarian, pastoralist, and semi-pastoralist lifestyles. Saving and credit cooperatives, which mostly serve the rural areas, are generally weak and not able to provide services on a sustainable basis.<sup>107</sup> As a result, the majority of Ethiopians, specifically the adult population, did not use the formal financial system. According to a 2017 World Bank Findex survey, approximately more than 65 percent of Ethiopian adults (15+)<sup>108</sup> reported not having an account for saving, borrowing, or insuring themselves against risks through informal means (World Bank, 2018, p. 37 & 124).

The development of financial institutions in Ethiopia is a recent phenomenon, as compared to other parts of the world. Electronic banking is still in its early stage of development (FDRE, 2016b; NBE, 2017c). Except the Development Bank of Ethiopia, which is a development arm of the government, all commercial banks in Ethiopia provide traditional banking services for their customers. There are no banks in Ethiopia that specialize in investment, mortgage, private banking, etc.<sup>109</sup>

Thus, the underdeveloped financial system plus the living condition of the people, which is predominantly rural-based, make the use of credit-card transactions very minimal and cash-based transactions dominant. Aside from the issue of accessibility and development, there is a lack of understanding of how to use financial institutions. The society, specifically those living in rural areas, lacked sufficient knowledge about the use and operation of financial institutions.<sup>110</sup> Also, according to the World Bank's Findex Database, 92 percent of unbanked adults have primary education or less (World Bank, 2018, p. 38). Thus, financial illiteracy is hindering some segments of the Ethiopian people from using formal financial institutions. Moreover, the societies' culture and religion have contributed to them becoming un-banked. For instance, Muslims believe that saving and borrowing with interest rates is considered a violation of their religious values.<sup>111</sup>

As a result, Ethiopia has an exceptionally large population of un-banked society. This portion of society operates fully in cash-based transactions. Even the banked society withdraws money from their bank account to undertake financial transactions.<sup>112</sup> Almost all transactions in the country are conducted in cash, including "large-scale financial transactions (e.g., vehicle and real estate purchases) are routinely conducted in cash or through a cashier payment order" (World Bank-ESAAMLG, 2015, p. 3). The country's

formal financial sector is exceedingly small, simple in structure, and only serves a small amount of the country's total population. In a nutshell, cash is king in the country's economy. This paves the way for criminals to (i) earn the proceeds of criminal activities easily, and (ii) launder the criminal proceeds and integrate into the legitimate economy effortlessly.

Ethiopia's cash-intensive economy enables money to circulate outside of the conventional financial system, resulting in untraceable and undocumented cash transactions. As of April 2020, more than 113 billion Ethiopian Birr (ETB) (which is equivalent to \$2.8 billion) was circulating outside of the formal financial system (Muluken, 2020a; Wossenseged, 2020). The anonymity and ubiquity of cash transactions make it difficult for law enforcement to follow the audit trail.<sup>113</sup> In this economy, undertaking money laundering prevention measures such as KYC, CDD, detecting and reporting suspicious transactions is more cumbersome and difficult than in a credit-based economy.

In a cash-based economy, the conventional three phases of money laundering viz., placement, layering, and integration may become difficult to apply at a point of time.<sup>114</sup> Cash is typically involved at the placement stage, but it also plays a role in both layering and integration phases (Moshi, 2012). Proceeds from crime can be placed, layered, and integrated without entering the formal financial sector of the economy. This revealed that money laundering is much easier and faster in a cash-based economy.

#### **4.1.2. Ethiopia's Economic Growth and Associated Criminality**

For the past two decades, Ethiopia has registered incredible economic growth and development. This economic boom has been appraised by many international organizations, including the World Bank and IMF (World Bank, 2016). This economic

growth would be used as a structural factor for the growth of money laundering due to twofold reasons.<sup>115</sup> First, economic growth creates new business opportunities that are linked to several criminal activities. Second, the economic growth is not properly regulated, and it is as open as the blue sky for money laundering.

Traders began to believe that Ethiopia is a promising country with several business opportunities, and it is feasible to start a business and eventually become a businessperson. However, getting an initial budget for trade and other business activities became a daunting task. The capacity of the government and formal financial institutions to offer loans was limited. Besides, to get a loan from formal financial institutions, there are requirements that the borrower has to meet. The borrower must have personal property, like a house or car, that the bank can use as collateral. Therefore, this forced borrowers to look for other opportunities.<sup>116</sup> Eventually, some of them become traffickers, *hawaladars*, smugglers, contrabandists, and others fall into the clutches of illicit money lenders—usuries.<sup>117</sup> In other words, the new business opportunities and the challenges of borrowing money from formal financial institutions have fueled the growth of informal lending systems and the expansion of illicit businesses.<sup>118</sup>

The financial operation of money lenders is simple, cost-effective, and flexible when compared to the formal financial system. Usuries commit acquisitive crimes, amassing illegitimate wealth, and lending it out at exorbitant interest rates.<sup>119</sup> In the country, the interest rate is determined by the National Bank. Usuries, on the other hand, lend money to borrowers at an excessive interest rate. Despite the fact that usury—in Ethiopia commonly known by the name “*Arata*” is a crime, most transactions are conducted in private and shelled out by other deals.<sup>120</sup> The lender and borrower went to the

Document Authentication and Registration Office and signed contracts such as contracts of loans that are seemingly legal.<sup>121</sup> However, the contract is a pseudo-contract that governs a non-existent transaction/deal. The borrower is then accused of breaching “contractual” obligations if he or she fails to repay the debt.<sup>122</sup> In many cases, the court ordered the confiscation of properties, including private residences. This type of practice creates a ripe terrain for criminals to conduct illicit business and launder the proceeds.<sup>123</sup> First, the initial money used for lending would be the proceeds of crime, usually, loan sharking, and the pseudo contract is utilized to launder the illicit proceeds.<sup>124</sup> Second, criminals would exploit the court order to ascertain “legitimate ownership” of the illegitimate property.<sup>125</sup> That is, the court order would be utilized to launder criminal proceeds. Third, the confiscated assets would be used to commit other crimes, such as usury—creating a vicious cycle of crime and criminality. In the country, usury is criminalized in the Criminal Code (FDRE, 2004, Art. 712 and 715) and there have been several cases of usury. However, the notorious cases are Kebede Tesera, and Gebrekidan Beyene (Morocco).

The country’s trade system, specifically its import and export businesses, is not adequately regulated. This provides an enticing environment for money laundering to thrive and expand in the country. In opening a new business, some procedural requirements must be met to obtain a license. Once, the license is secured, the opportunity is as open as the blue sky.<sup>126</sup> The checking mechanism of whether the traders are engaging in the business for which they have been licensed is extremely limited.<sup>127</sup>

Under or over-invoicing of goods and services in Ethiopia is highly cognate to price setting. In Ethiopia, there is a problem with price setting. The Customs Commission has a Price Fixation and Estimation Department. This department sets prices based on cost,

insurance, and freight (FDRE, 2014). However, when a new product is imported to the country, it is estimated by taking the price of parallel products. The Customs Commission did not have a mechanism to know the international price of every product.<sup>128</sup> Furthermore, the law requires the Customs Commission to allow a product to be imported or exported if it is under or over-invoiced by less than 10 percent. However, how can Customs determine whether a product is 10% under or over-invoiced if the international price of the product is not known properly? Some “traders” were aware of this legal lacuna and took advantage of it.

Individuals can declare a profit that is not proportional to the size of their business. The government would collect a tax from the declared profit. However, part of the profit could be generated via criminal activity. The Customs Commission did not pay due attention to such illicit practices.<sup>129</sup> On the contrary, the collection of tax from the profit declared as earned from “legitimate sources” would enable criminals to launder the proceeds of criminal activities.

In general, loosely regulated economic growth results in the growth of associated criminal offenses such as loansharking, illicit trade practice (contraband), and money laundering. The large volume of import and export goods, the complexities associated with foreign exchange transactions, the intermingling of legitimate and illegitimate trade, and the limited understanding and resources to detect dubious trade transactions provide an attractive environment for criminals to use the country’s trade system to launder the proceeds of illicit activities.<sup>130</sup> Moreover, the manual-based screening procedure and the variety of techniques and schemes used by criminals, fraudsters, and tax cheaters to misuse the country’s trade system fueled by corrupted customs and law enforcement personnel

presented primary challenges to the Customs Commission and other law enforcement agencies to detect and counter trade-based money laundering.<sup>131</sup> On the other edge, this provides an appealing environment for criminal entrepreneurs to (i) abuse the trade system and earn illicit proceeds, and (ii) use the trade system to launder criminal proceeds.

#### **4.1.3. Underground/Illicit Banking Activities**

Illegal *hawala* as a predicate offense of money laundering or as a laundering mechanism has been examined in Chapter 3 of this dissertation. However, as one of the structural factors for the emergence of money laundering, the growth of underground banking activities or the prevalence of money transmitters via illegal *hawala* is examined in this section.

Underground banking, often known as illegal *hawala* service, is a type of informal banking that allows money to be transferred locally and internationally without the use of formal/legitimate financial institutions. As a cheap, fast, and reliable money transfer system, it is primarily used by overseas migrant workers sending remittances to their families in their home countries (Farooqi, 2009).

In developing countries, remittances play a crucial role. It contributes to build foreign currency reserves, addresses the balance of payments deficit, and enables investment in projects involving health and education (Keatinge, 2014). Ethiopia has benefited enormously from the support of its citizens living abroad and its diaspora. According to the International Organization for Migration (IOM) (2017, p. 5) report, “migrant remittances account for over 5 percent of Ethiopia’s GDP—one-quarter of the country’s foreign exchange earnings”. Formal remittances provide a significant contribution to the country's economic growth and development. That is why, the

government of Ethiopia in the Second Growth and Transformation Plan (GTPII)–2016-2020, recognized remittances as one of the contributing factors to the country's development, specifically to the balance of payments (FDRE, 2016b). This is also reflected in the country's Foreign Affairs and National Security Policy and Strategy (FDRE, 2002). In August 2018, the Ethiopian government established the Ethiopian Diaspora Trust Fund to boost the diaspora community's contribution.

Around 3 million Ethiopians are living outside of the country and many of them send money back to their family and relatives (Kukutschka, 2018, p. 7). The value of remittances has steadily increased from around \$141 million in 2003 to \$4 billion in 2016 (APA News, 2017 as cited in Kukutschka, 2018, p. 7). The Somalis and Eritreans living abroad also sent money to support their families located in Ethiopia. However, according to the IOM (2017, p. 5), as much as 78% of the money sent to the country as remittances, is sent through informal channels known as illegal *hawala*.

In Ethiopia, due to the cash-intensive nature of the country's economy, the closed nature of the country's financial system, and vigorous control of foreign exchange and possession of foreign currency, there is a perception that the informal sector—notably *hawala* and usury—poses the greatest risk for money laundering. Also, as the key informants of this study revealed,<sup>132</sup> the problem of parallel banking activities, specifically, illegal *hawala*, continues to plague the country. Ethiopia's government monitors informal value transfer networks and has closed several illegal *hawala* operators (FDRE, 2016b).<sup>133</sup> However, according to the 2015 mutual evaluation report, the focus of these investigations has often been on improper licensing rather than the source or destination of the funds (World Bank-ESAAMLG, 2015).

Foreign currency sent through the remittance system from the Ethiopian Diaspora or Ethiopians who lived abroad went into the coffers of the *hawaladars*.<sup>134</sup> According to the FIC (2016b), the money for illicit *hawala* comes from Beirut, Israel, Italy, Jordan, Kuwait, Lebanon, Norway, Qatar, Saudi Arabia, South Africa, South Sudan, Sweden, United Arab Emirates, United Kingdom, United States of America, and Yemen.

Ethiopians prefer the use of illegal *hawala* for several reasons. The majority of Ethiopian migrants, particularly those who arrived illegally, lacked the necessary documents, such as a residence permit or a work permit, to use formal financial institutions and send money back to their home country or families.<sup>135</sup> Legal immigrants tend to use the informal (illegal) *hawala* system because of the language barrier of the formal remittances system. Illegal *hawala* is cheaper and conducted by a network of trust. Usually, the customers and illegal *hawala* providers—*hawaladars*—can easily establish a good rapport because they share similar customs, social life, culture, lifestyle, and language. It is also accessible even to the distant rural areas of the country.<sup>136</sup> Further, illegal *hawala* pays money to the recipients higher than the formal financial institutions which is nearly equivalent to the black market—an illegal foreign exchange service.<sup>137</sup> Due to the non-existence of physical relocation of money, transactions in illegal *hawala* are faster than the formal financial system.

In illegal *hawala*, the money is not physically entered into Ethiopia. The foreign currency collected abroad is either sold to Ethiopian traders or invested in foreign countries.<sup>138</sup> The *hawaladar's* local agents receive money from traders who buy the foreign currency and distribute it to the sender families or delegates. The money obtained from foreign currency buyer's agents would be the proceeds of illegal activities. Thus, paying

this illicit money to the foreign currency sender's family or delegate is one mechanism to launder the proceeds of crime.

It is simple to use this channel as a money laundering scheme. Criminal entrepreneurs use this channel because anti-money laundering rules such as KYC, CDD, and STR are not implemented in underground banking.<sup>139</sup> Besides, in the illegal *hawala*/underground economy, tracing the money flow by law enforcement agencies is exceedingly difficult. In general, Ethiopia's cash-intensive and loosely regulated economic system, fueled by the existence of a parallel banking system, exacerbates the vulnerability of the country to money laundering.

#### **4.1.4. Shortage of Foreign Currency Reserve**

Money laundering strategies identified in Chapter 3 of this dissertation mainly emanated from the physical shortage of foreign currency reserves, specifically the U.S. dollar, euro, and pound. In the last 20 years, Ethiopia's economy has grown at a faster rate. Despite rapid economic growth, the landlocked country of more than 100 million people is heavily affected by a foreign exchange shortage (Aaron, April 16, 2018; Haile, 2019). Even though this threatens local and foreign investments and the economy, it provides a lucrative opportunity for money launderers.

The government of Ethiopia, through the National Bank, sets the foreign exchange rate. Foreign currency is vigorously regulated by the government. On February 10, 2016, Ethiopia's National Bank, the central bank of the country issued a directive that dictates transparency in foreign currency allocation and foreign exchange management.<sup>140</sup> In allocating foreign currency, the directive requires commercial banks of the country to apply the principle "first come and first served". Moreover, a trader or any individual can only

obtain a foreign currency at a commercial bank's headquarters. However, the head offices of all commercial banks are situated in Addis Ababa. Individuals must therefore travel to the capital to obtain foreign currency.

The government determination of the foreign exchange rate and the practice of providing foreign currency at commercial banks' head offices, backed by the shortage of foreign currency reserves, led to the rise of several illicit activities such as parallel banking systems, black market exchange, trade mis-invoicing, illicit financial flows, and money laundering.<sup>141</sup> In Addis Ababa, near the central bank and the head offices of most commercial banks, there is a huge black market.<sup>142</sup> The black marketers open small businesses, while going down the street, they ask you, if you have any foreign currency, either by sign or word.<sup>143</sup> Though the black market's exchange rate fluctuates, by far it is better than the banks. Individuals with foreign currency are turning to the black market for extra cash. Astonishingly, this study finds that government officials and employees who secure foreign currency for their international travel use the underground market to exchange.<sup>144</sup>

The money amassed through the black market exchange has been used to import and export goods, including contraband, or has been illicitly outflowed to other countries, specifically to Djibouti, Somalia, Kenya, Sudan, South Sudan, respectively via Dewale, Togo Wuchale, Moyale, Metema, Gambella, and to other countries via Addis Ababa Bole International Airport.<sup>145</sup> Aside from black-market exchange, traders to get foreign currency for their export and import businesses are engaged in over-invoicing of imported goods, and giving bonuses to the managers and workers of the International Bank Departments, a department responsible for financing export and import businesses.<sup>146</sup>

All of this indicates that Ethiopia's acute foreign currency scarcity is a source of various criminal activities and is one of the structural factors contributing to the growth of money laundering in the country.

#### **4.1.5. Societal Demand for Illicit Goods and the Market Gap to Supply Some licit Goods**

Ethiopia's vulnerability to money laundering is exacerbated by societal demand for illicit goods and services such as firearms, narcotics, and usury, as well as a market gap for supplying some licit goods and services such as *hawala* and affordable loans. In Ethiopia, there is a skyrocketing demand for certain goods and services, specifically illicit.<sup>147</sup> Due to their illegal nature, the market is unable to supply such goods and services. There is also a market gap for supplying licit goods and services. These are the potential risk factors for the growth of criminal networks and, as a result, money laundering in the country.

A group of individuals or organized criminals participating in providing illicit goods and services, notably usury, drugs, small arms and light weapons, illicit trade (contraband), stolen properties, and illegal *hawala* due to the desire of a segment of the public but not available through legitimate channels.<sup>148</sup> There is a demand for illicit drugs in Ethiopia, specifically, in Addis Ababa. This demand enabled criminals to cultivate or traffic narcotics, mainly marijuana (cannabis). Cannabis is grown in some rural areas of Ethiopia and is distributed to the urban centers, in particular Addis Ababa.<sup>149</sup> The African Regional Hemp & Cannabis Report of 2019 estimated that Ethiopia has a cannabis potential market of USD 9.8 billion (Brook, May 25, 2019). In addition, cocaine, methamphetamine, and heroin are either trafficked or consumed in Ethiopia (Deyessa, Senbete, Abdo, and Mundia, 2020; UNODC, 2020). Moreover, officials of the Ethiopian

Federal Police Commission stated that “Ethiopia is used as a transit point for drug trafficking, notably cocaine originating from Latin America and heroin from Asia”.<sup>150</sup> The combination of convenient and affordable air service of Ethiopian Airlines, limited police capacity to combat narco-trafficking, and minimum period of conviction for drug traffickers have led many traffickers to utilize Addis Ababa as a transit point.<sup>151</sup>

Across the country, there is a high demand for small arms and light weapons such as pistols and AK-47s. The regulations put in place by the government have had little effect on diminishing the demand for small arms and, as a result, some people attempt to obtain them illegally (Reuters, January 9, 2020). Similarly, a significant portion of society desires to buy products at the lowest price possible, regardless of where the seller originally obtained them. Due to this demand, organized criminals emerge who “fence” stolen merchandise (i.e., buy and sell stolen property) and contraband goods to customers who do not care from where it came. These illegal and stolen properties consist of weapons, clothes, cell phones, jewelry, electronics, software, or any other product for which there is high demand.<sup>152</sup>

In sum, the general societal demand for illicit goods and services led to the growth of criminal activities such as drug trafficking, usury, arms smuggling, and illicit trade, which generated a considerable amount of filthy money. To invest or consume the dirty money without fear of being prosecuted, as well as to evade audit trail, criminals are usually engaged in laundering the illicit proceeds. The societal demand for illicit and stolen goods and services creates an appealing environment for criminals to expand their illicit activities, collect, and accumulate illicit proceeds, and then launder it.

## **4.2. Money Laundering and Ethiopia's Political System**

The country's political system has made a significant contribution to the rise of money laundering and its predicate offenses. The rise of an elite cartel model of systematic corruption, limited institutional capabilities, deficiencies in the country's legal norms, and lack of a national identity card system are some of the political factors that have contributed to the rife of money laundering.

### **4.2.1. The Rise of Elite Cartel Model Type of Systematic Corruption**

The rise of an elite cartel model of systematic corruption is one of the structural factors contributing to the prevalence of money laundering in Ethiopia. The ethnic-based politics and the developmental state model led to the raise of a rent-seeking political economy. This political economy eventually led to the widespread practice of corruption, clientelism, and other forms of rent-seeking activities.<sup>153</sup>

The government of Ethiopia, specifically, the then Prime Minister Meles Zenawi, frequently stated that a rent-seeking political economy is Ethiopia's core challenge to its economic growth and development (Befekadu, May 21, 2013). The nature of the country's political system spawned the rent-seeking political economy.<sup>154</sup> Ethnic affiliation and loyalty, along with inadequate economic regulation, upsurge the vulnerability of Ethiopia's economy to clientelism and other forms of patronage.<sup>155</sup>

At the end of the 1990s, the government of Ethiopia introduced the idea of a democratic developmental state as a state development policy (Alex De Waal, 2015). The developmental state model pursues state intervention when a market gap (failure) happens. To do so, the Ethiopian People Revolutionary Democratic Front (EPRDF) government has retained control over a large proportion of available sources of rent and economic levers.<sup>156</sup>

These include “the large state-owned enterprise sector, endowment-owned businesses, and substantial regional development organizations; as well as tight regulation of financial institutions, including for micro-credit, and expansion of the tax base” (Vaughan & Gebremichael, 2011, p. 10). The emphasis of the government policy was on building a strong government with a competitive advantage over the market.<sup>157</sup> Meles believes that “the state should control the commanding heights of the economy to be able to lead the private sector (banks, utilities, and some key production sectors)” (Alex De Waal, 2015, p. 164). Consequently, a high portion of the country’s wealth was going to the government coffer.

As a result, the government has done extensive work on building critical infrastructures, such as roads, schools, universities, health centers and hospitals, electric power dams, and telecommunications. However, as the party and the government have often said, this has resulted in the emergence of a rent-seeking political economy (Asrat, February 27, 2016). That is to say, government intervention in the economy opens the door to government officials abusing their power and embezzling public assets.<sup>158</sup> Over three decades of economic growth and development, clientelism, fraud, deceit, embezzlement, extortion, nepotism, theft, and other sorts of rent-seeking behaviors evolved (Befekadu, May 21, 2013). Specifically, following the death of Prime Minister Meles Zenawi, as Alex De Waal (2015, p. 173) rightly stated, there was “competition within the political leadership, the security services, and the army to control over the state rents and appropriate those rents for personal enrichment, for factional political budgets or both”. Corruption is becoming rampant in several sectors, such as land administration, mega government projects, customs, and government procurements.

In general, corruption is exceedingly entrenched in the country's political elite. The state was confronted with an elite cartel model of systematic corruption that grew at an alarming rate, and the corrupters laundered the proceeds of their criminal activities by depositing in banks, buying houses, cars, and other luxurious items.

#### **4.2.2. Inadequacies of the Country's Anti-money Laundering Regime**

Inadequacies in the country's anti-money laundering regime (both normative frameworks and institutional arrangements) are providing an attractive environment for criminal entrepreneurs to accumulate illicit wealth and launder it with a certain level of anonymity and impunity.

Although Ethiopia has enacted several anti-money laundering normative frameworks, they are accompanied by deficiencies (a detailed discussion of this is found in Chapter 6). The anti-money laundering legal norms have deficiencies in determining jurisdictions, formulating competent authorities, and proving money laundering cases before a court of law. The laws also have deficiencies in governing money laundering via export-import trade, cash-based money laundering, financial technologies, and virtual currencies. Moreover, under the country's legal norms, there is a lack of a comprehensive, sustained, and concerted policy or strategy to identify and recover illicit assets as a priority, as well as to ensure the alignment of objectives, tools, and resources to this end. Criminals took advantage of these legal lacunas to further their goals.

The limited capacity of the country's anti-money laundering institutions is also one of the structural factors that contributed to the prevalence of money laundering and associated predicate offenses. The government of Ethiopia has established several institutions to combat and prevent money laundering. These are categorized into three main

categories: competent authorities, reporting entities, and regulatory bodies (a detailed discussion of this is found in Chapter 7). The country's anti-money laundering institutions have registered commendable achievements in preventing and suppressing money laundering and associated nefarious activities. However, those institutions lack effectiveness. These organizations lack trained human power and have limited analytical and technological capabilities. The reporting entities, with the exception of banks, have yet to begin implementing the full package of money laundering prevention measures. The regulatory authorities (except the National Bank of Ethiopia) did not conduct anti-money laundering supervision. Inadequacies have also been noted among the country's law enforcement agencies in investigating money laundering cases, freezing, and seizing the proceeds or instrumentalities of crime. Moreover, there is a lack of coordination and cooperation among institutions engaged in money laundering prevention and detection. These institutional limitations would enable criminals to commit acquisitive crimes, amass illicit wealth, launder the proceeds of criminal activities, and evade justice.

#### **4.2.3. Absence of National Identity Card System**

The lack of a national identity card (ID card) creates a favorable condition for criminals to generate illicit proceeds and then launder it. In Ethiopia, there is no national identity card system.<sup>159</sup> At present, each *Kebelle* (the country's lowest administrative unit) has issued its own identity card. There is a high probability that a person can have more than one ID card with his/her real or fictitious name.<sup>160</sup> This, in turn, enables the individual to open different bank accounts or conduct business activities using his/her real or fictitious names. Eventually, it creates trouble for financial institutions to undertake money laundering prevention measures such as KYC, CDD, and reporting suspicious transactions.<sup>161</sup> The law

enforcement agencies are also facing difficulties in tracing criminals and identifying and seizing criminal proceeds.

The government also issued passports in addition to the national identity card. The Immigration and Nationality Affairs office has issued this document. After passing several stringent requirements, it is granted for five years. The Ethiopian law prohibited dual citizenship and a person's chance of having more than one Ethiopian passport is slim. However, Ethiopia shares a boundary with six countries: Djibouti, Eritrea, Kenya, Somalia, South Sudan, and Sudan. There is a shared community with the six countries along the border. Persons with the same ethnic background as the communities shared by two or more nations have the possibility of having two passports. The data collected from the field revealed that “few Eritreans either have Ethiopian passport or applying to the Immigration and Nationality Affairs office to have Ethiopian passport under the guise of Tigrayan identity”.<sup>162</sup> This kind of practice is also manifested by Somalis, Djiboutians, South Sudanese (Nuer), and Kenyan (Oromo).<sup>163</sup>

### **4.3. Geopolitical Position of Ethiopia and Porous Borders**

Ethiopia's geopolitical location increases the vulnerability of the country to money laundering and other transnational criminal syndicates such as human trafficking, people smuggling, arms dealing, and illicit financial outflows. These criminal syndicates generate a considerable amount of dirty money. The dirty money is accumulated, laundered, saved, and invested in the country.

The Horn of Africa is increasingly becoming an attractive place for several types of transnational organized criminals (Interpol, 2018). These criminal syndicates are involved in illicit trade of natural resources, animals and animal bodies, small arms and

light weapons, counterfeited and smuggled goods, human trafficking and migrant smuggling, drug trafficking, illicit financial flows (including money laundering), piracy, and cross-border terrorist activities (Interpol, 2018; Shetret, Durner, Cotter and Tobin, 2015).

The presence of illicit criminal networks in the region has contributed to the growth and expansion of money laundering and associated predicate offenses in Ethiopia.<sup>164</sup> According to the Global Organized Crime Index of 2021 (p. 167), criminal networks and foreign actors are the primary perpetrators of organized crime in Ethiopia. This in turn boosts the susceptibility of the country to money laundering. Criminal networks (foreign actors) can easily enter Ethiopia, commit predicate offenses, and generate illicit proceeds, which can then be laundered.<sup>165</sup> The country's unmanaged and porous border, as well as Ethiopia's limited cross-border cooperation with its neighbors in sharing information and conducting joint/multilateral law enforcement operations, provide an appealing environment for criminal entrepreneurs to enter and launder their illicit funds.<sup>166</sup>

#### **4.4. Chapter Summary**

In this chapter, the researcher critically examines the risk factors for the growth of money laundering in Ethiopia. It finds that money laundering in Ethiopia is attributed to several economic and political factors. Being primarily a cash-intensive and informal economy, loosely regulated economic growth and the emergence of growth-related offenses, the growth of parallel banking systems, acute shortage of foreign currency reserves, and market gap or failure to meet societal demand for certain goods and services are all economic factors that have contributed to the raise of money laundering in Ethiopia. The raise of elite cartel model type of systematic corruption, deficiencies in the country's anti-

money laundering normative frameworks, limited institutional capacity to enforce the country's anti-money laundering legal norms, and lack of a national identity card system have all been identified as political factors contributing to the growth of money laundering. Moreover, the study finds that Ethiopia's geographical location and porous borders, as well as the country's limited cross-border cooperation with its neighboring countries in sharing information and conducting joint/multilateral law enforcement operations as enabling factors for the growth and expansion of money laundering. This necessitates a thorough examination of the effect of money laundering on the economy and national security of the country.

# **CHAPTER FIVE**

## **MONEY LAUNDERING AND ITS RAMIFICATIONS IN ETHIOPIA**

### **Introduction**

Money laundering has severe security, economic, and social ramifications. It is a growing problem that jeopardizes not only the integrity and stability of the economic (financial) system but also the safety of society and Ethiopia's national security. The Basel Anti-Money Laundering Index, in its recent publication (2021), for the first time, provides Ethiopia's anti-money laundering index. According to this index, Ethiopia is identified as one of the jurisdictions with a high risk of money laundering and terrorist financing, i.e., 6.77/10 (Basel AML Index, 2021, p. 24).

Therefore, in this chapter, the researcher examines the debilitating effects of money laundering on Ethiopia's economy and security. It is structured into four sections. The first section proceeds with analyzing the effects of money laundering on the country's economic system. The second and third sections, respectively, looked at the ramifications of money laundering on the country's national security and the human security of Ethiopians. Finally, the last part includes a chapter summary.

## **5.1. Money Laundering and Ethiopia's Economy**

Money laundering is wreaking a lot of damage to Ethiopia's economy. It has an effect on foreign currency reserves, diminishes domestic revenue, interferes with fair market competition, and jeopardizes the operation and reputation of the country's legitimate financial system.<sup>167</sup>

### **5.1.1. Foreign Currency Reserve**

Money laundering seriously affects Ethiopia's foreign currency reserves. According to a research participant of this study,<sup>168</sup> "Ethiopia is facing a severe shortage of foreign currency reserves due to the widespread practice of money laundering, illegal *hawala*, black market exchange, and other illegal activities". Illegal *hawala* as a predicate offense and as a means of laundering resources out of Ethiopia hinders the country from access to an important source of foreign currency that it could have gained from its Diaspora or Ethiopians living abroad.<sup>169</sup>

Cash-based money laundering, specifically money laundering through the physical transportation of cash, is causing illicit financial outflows.<sup>170</sup> The country loses a significant amount of foreign currency each year owing to the physical smuggling of bulky cash. Trade-based money laundering, which occurs as a result of trade mis-invoicing, illegally transfers money and capital out of the country, which eventually resulted in reducing domestic revenue and investment.<sup>171</sup> According to Global Financial Integrity (GFI) estimations, between 2004 and 2013, an estimated average of \$2 billion left Ethiopia as illicit financial outflows every year (Tesfa, February 17, 2016). On April 17, 2018, less than two weeks after taking office, Prime Minister Abiy Ahmed Ali pleaded with businesspeople to return the money outflow from the country. Abiy explained that "we

have a big problem generating foreign exchange. I would like to appeal to you right now to return the money [dollars, euros] you have stashed away in Dubai and China” (Fana Broadcasting Corporate, April 17, 2018). However, the outcome of the pleading was not appealing. In a nutshell, money laundering plays a crucial role in depleting the foreign currency reserves of the country.

### **5.1.2. Domestic Revenue**

Money laundering essentially diminishes Ethiopia’s domestic revenue and expenditure. Trade-based money laundering, by undermining legal import and export operations, not only threatens the legitimate businesses of the country but also impacts one of the largest sources of revenue in the country—customs duties.<sup>172</sup> Money laundering using illegal *hawala* frequently takes place in the underground economy. This makes it difficult for the government to collect revenue from related informal and unground economies.<sup>173</sup>

Ethiopia is a developing country. For its development endeavors, the country needs foreign aid and loans from industrialized countries and international financial institutions, such as the World Bank and IMF. However, money laundering would hinder the country from obtaining loans and foreign aid.<sup>174</sup> In the previous decade, notably in 2011 and 2017, Ethiopia was identified by the FTAF as one of the jurisdictions having strategic anti-money laundering deficiencies that pose a risk to the international financial system (FATF, 2011a; FATF, 2017a). In a similar vein, the European Commission labeled Ethiopia as a jurisdiction having strategic deficiencies in its anti-money laundering regime that pose significant threats to the financial system of the Union (EC, November 12, 2017). The Commission also urges, “banks situated in Europe to apply enhanced due diligence on financial flows from Ethiopia” (Samson, November 12, 2017). According to the

participants of this study,<sup>175</sup> “this was gravely affecting the country's ability to obtain foreign aid, loans, and foreign direct investment”. In some European countries, there were tendencies to scrutinize business relationships concluded between Ethiopian businesspeople and their foreign counterparts.<sup>176</sup> In the end, this jeopardizes not only the country's domestic revenue and expenditure but also the name and reputation of the country's financial institutions.<sup>177</sup> Eventually, this would isolate the country's financial institution from the global financial system, which gravely imperils the country's development endeavors.

### **5.1.3. Financial System**

Economic growth and development require a well-established, well-functioning financial system, but criminal investments endanger the operation and reputation of the legitimate financial system of Ethiopia in several ways. First, criminal investments affect the credibility of the financial bodies and the systems in which they are operating, such as illicit transactions taint licit ones, which is discouraging investors to invest.<sup>178</sup> Second, criminal investment affects fair and honest market competition. Criminals, by infiltrating the market and bureaucracy through either corruption or intimidation, tend to create a market monopoly. Third, money laundering increases the level of volatility and solvency of the Ethiopian financial sector.<sup>179</sup> Due to the widespread practice of cash hoarding, illicit financial flows, corruption, and money laundering, Ethiopia's financial institutions, specifically the banks, have faced a liquidation problem (Reporter, September 19, 2020). To salvage the fractured economy, the government was eventually forced to change its banknotes and impose a cash withdrawal limit. The demonetization took place at a cost of 3.7 billion birrs (\$101.2 million) (Addis, September 14, 2021; NBE, September 14, 2020).

This demonstrated that criminals influenced the government's priorities to skew away from basic infrastructures toward law enforcement and demonetization.

## **5.2. Money Laundering and National Security in Ethiopia**

Money laundering is allowing criminals and organized criminal enterprises to consolidate their economic power in legal markets, with a certain level of impunity and anonymity. By the same token, in Ethiopia, money laundering provides power and capability to criminal entrepreneurs to commit further criminal activities, and, in return, it poses a threat to national security.<sup>180</sup> From the data collected, the researcher concluded that money laundering is affecting the national security of the country in three dimensions. First, it affects the government's capacity to deliver basic public goods and services; second, it affects the legitimacy of the government; and third, it obstructs the law enforcement efforts of the country.

### **5.2.1. Money Laundering and Ethiopia's Capacity to Deliver Basic Public Goods and Services**

The Ethiopian government's ability to deliver basic public goods and services is being hampered by money launderers and other notorious criminals. The government of Ethiopia has an obligation to provide much-needed public goods such as safety, health, education, and sustenance. Money laundering, on the other hand, gives criminals the ability to obstruct the government from delivering these services.<sup>181</sup> In particular, money laundering, allows criminals to consolidate their economic power and position themselves as a viable alternative for the provision of public goods.<sup>182</sup>

The money laundering schemes discussed in Chapter 3 of this dissertation include trade-based money laundering, money laundering using illegal *hawala*, and money laundering through physical transportation of cash; transfer money from Ethiopia to abroad. This money is used by criminals to buy illegal goods such as clothes, small arms and light weapons, and illicit drugs.<sup>183</sup> In return, the smuggling of illicit goods, specifically small arms and light weapons, is affecting the state's capacity to maintain law and order.

In Ethiopia, there are ethnic conflicts and tensions, which are fueled by illegal small arms and light weapons. In contrast, the proliferation of illicit small arms exacerbated ethnic conflicts and tensions, resulting in the deaths of hundreds and the displacement of millions in various ethnic conflicts (Wilson, May 30, 2019). It is reasonable to see a vicious cycle operating here: the proliferation of illicit small arms led to ethnic conflicts and tensions, and these in return led to the proliferation of illicit small arms and light weapons. It eventually hinders the state's ability to maintain law and order.

The laundered money is also being used to corrupt state officials. The existence of weak state machinery, as well as criminals' ability to infiltrate the state bureaucracy through corruption, further weakened the state's ability to deliver basic public goods and services.<sup>184</sup> As discussed in the preceding chapter, corruption and other forms of rent-seeking are growing in Ethiopia. According to the 2019 Transparency International Corruption Perception Index, Ethiopia ranked 96/180, with a score of 37/100. In 2018, the TRACE Bribery Risk Matrix rated Ethiopia as a “high” risk (71/100) and ranked 176/200.

Corruption and money laundering are inextricably linked in Ethiopia.<sup>185</sup> They do not only tend to co-occur, but the presence of one tends to create and reciprocally reinforce the occurrence of the other.<sup>186</sup> In the national risk assessment, corruption is identified as

one of the high-level threat predicate offenses of money laundering that produce enormous profits to be laundered, at the same time, bribery and embezzlement can jeopardize the state's ability to deliver much-needed public goods.

### **5.2.2. Money Laundering and the Legitimacy of Ethiopia's Government**

Money laundering has played a role in undermining the legitimacy of the government of Ethiopia. Since 2016, the government of Ethiopia has overtly faced a legitimacy crisis. Money laundering has played its role in this process.<sup>187</sup> In the country, corruption, cronyism,<sup>188</sup> and other illegal activities are widely practiced. The Ethiopian government has alleged that political authorities are engaged in ethnic-based conflict to maintain their interests as they are engaged in the contraband trade.

Money obtained through corruption, contraband, and other criminal activities is laundered using various techniques, and this provides criminals and their agents the ability to establish criminal markets and enterprises.<sup>189</sup> This is to say, by appearing to be captured by corrupters and their network, the government of Ethiopia suffers a legitimacy crisis and the general public loses trust in the government.

### **5.2.3. Money Laundering and the Country's Law Enforcement Efforts**

Money laundering is also affecting the country's law enforcement efforts. Money laundering, as previously stated, consolidates criminals' economic power. It is a mechanism for ensuring crime does pay. It allows criminals and terrorists to operate freely, using their financial gains to expand their criminal pursuits and fostering illegal activities such as corruption, human trafficking, drug trafficking, arms trafficking, and illegal trade (contraband).<sup>190</sup> Further to that, the laundered money is used to infiltrate and corrupt the country's security apparatus.<sup>191</sup> Moreover, money laundering may led to the transfer of

economic power from the market, the government, and the citizens to criminals, abetting, therefore, crimes and corruption. While the economic power of criminals is consolidating, law enforcement activities in the country are being obstructed.

### **5.3. Money Laundering and Human Security in Ethiopia**

Money laundering has serious consequences for Ethiopians' human security. The laundered money provides freedom for criminal syndicates to traffic and smuggle Ethiopians. It is also used to purchase and smuggle counterfeited medicine and sustenance, which is causing a public health problem in the country.

One of the consequences of money laundering is the prevalence of human trafficking and the smuggling of people in Ethiopia. Money laundering provides “freedom” for traffickers and smugglers to recruit, transport, exploit, and smuggle Ethiopians to the Persian Gulf countries, Europe, or South Africa.<sup>192</sup> Ethiopia is a source, to a lesser extent a transit and destination country for men, women, and children who have been subjected to forced labor and sex trafficking (IOM and IGAD, 2015).

In the country, the distinction between trafficking and smuggling remains blurred. There are overlapping cases where smuggling becomes trafficking—human trafficking usually starts as migrant smuggling. Ethiopians, to a lesser extent Eritreans and Somalis, are smuggled to countries such as Europe (via the northern route), the Persian Gulf Countries (via the eastern route), or Southern Africa (via the southern route). Poverty, lack of employment opportunities, and political instability are push factors, whereas employment opportunities and better payment are the pull factors for the ubiquitousness of human smuggling and trafficking in the country.<sup>193</sup> The criminals move the victims through porous borders, mostly using falsified documents and corrupt national authorities.

However, many people later fall into the hands of human traffickers who take them hostage. Victims are then required to pay for their release, and many of them are sexually exploited and even killed, and their organs are taken (IOM and IGAD, 2015). In a nutshell, these negative effects of human trafficking and people smuggling are the by-product of money laundering.

The laundered money is also used to purchase and smuggle counterfeited medicine and sustenance, and this is creating a public health problem in the country.<sup>194</sup> Money laundering also diverts government resources away from essential infrastructure toward law enforcement. The Ethiopian government allocates millions of dollars annually for law enforcement agencies to combat money laundering and associated predicate offenses.<sup>195</sup> The rife of money laundering in the country, forces the government to increase its law enforcement budget. In turn, this is affecting investment in the basic infrastructures of the country, such as education and health. As a result, the average citizen suffers gravely.

#### **5.4. Chapter Summary**

In this chapter, the researcher examines the menace of money laundering to Ethiopia's economic stability and national security. Its findings indicated that money laundering has a debilitating effect on the economic stability and national security of the country. The study further uncovers that money laundering is wreaking havoc on Ethiopia's financial system. It facilitates capital flight and illicit financial flows, affects fair market competition, and compromises the operation and reputation of the country's legitimate financial system. It also has an impact on the country's revenue and foreign currency reserves.

This study also finds that money laundering is affecting the national security of Ethiopia in three dimensions. First, it affects the government's ability to deliver basic public

goods and services. Second, it undermines the legitimacy of the government, and third, the law enforcement efforts of the country are obstructed by money launderers and other criminal networks. Moreover, money laundering jeopardizes Ethiopians' human security. The laundered money is utilized to purchase counterfeit medicines and substances and this affects the security of citizens. The rife of money laundering in the country, increase government spending on law enforcement, skewing investment in basic public infrastructures, such as health and education. Elucidating the ramifications of money laundering necessitates a thorough examination of the country's anti-money laundering measures that include both normative frameworks and institutional strategies.

## CHAPTER SIX

# ETHIOPIA'S ANTI-MONEY LAUNDERING NORMATIVE FRAMEWORKS

### Introduction

In the Ethiopian legal system, the practice of law concerning criminal cases and their sanction has a long history. The earliest documented legal practice in Ethiopia was started approximately between 1450 and 1950, when the canonical penance (*Fewuse Menfessawi*), the law of the king (*Fetha Negest*), and the 1930 Penal Code of Ethiopia were widely used in turns (Aberra, 2000). However, the codification of these laws did not follow the rules of the modern codification process, and as a result, new codes were promulgated in the second half of the 20<sup>th</sup> century. The latter were codified systematically with clear and concise phraseology, following a logical, scientific, and convenient arrangement. The Penal Code of 1957 was one of these codes.

In 2004, the Penal Code of 1957 was revised and replaced by a new Criminal Code. One of the reasons for the revision of the Code was to incorporate modern legal concepts. Money laundering was one of the modern legal concepts incorporated in the Criminal Code. 2004 is a turning point for the development of Ethiopia's anti-money laundering regime. After five years, to augment the Criminal Code, the country enacted a detailed anti-money laundering law—Prevention and Suppression of Money Laundering and the Financing of Terrorism Proclamation No. 657/2009. In 2013, the government repealed Proclamation No. 657/2009 and replaced it with Proclamation No. 780/2013. Apart from

the main anti-money laundering law, there are laws that directly and indirectly contribute to the country's anti-money laundering normative frameworks.

Aside from domestic initiatives, the government of Ethiopia has ratified several international and regional instruments that support its anti-money laundering system. Therefore, this chapter briefly explores the historical evolution of the country's anti-money laundering legal norms. Then, it proceeds with examining the pillars of the legal norms, and their adequacy for the prevention and suppression of the menace of money laundering to the country's financial integrity and national security.

### **6.1. The Ethiopian Anti-Money Laundering Law: A Brief History**

Ethiopia is a signatory state to the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which is ratified on 11 October 1994, and the UN Convention Against Transnational Organized Crime, which is ratified on 23 July 2007 and its supplementary Protocols—the Protocol against the Smuggling of Migrants by Land, Sea, and Air; the Protocol to Suppress and Punish Trafficking in Persons, especially Women and Children, and the Protocol against the Illicit Manufacturing and Trafficking in Firearms, their Parts, Components and Ammunitions (the three protocols ratified and became part of the Ethiopian Law on 22 June 2012). The country also ratified the UN Convention Against Corruption on 26 November 2007, the African Union Convention on Preventing and Combating of Corruption on 11 September 2007, and IGAD's Conventions on Mutual Legal Assistance and Extradition.

To domesticate these international and regional instruments, to express the country's commitment to implement these instruments, and to dismantle the threat of money laundering and associated predicate offenses to the country's financial stability and

national security, the country has enacted several laws such as anti-money laundering proclamations, regulation, directives, policy, standard operating procedure, and manuals.

This study finds that the development of the Ethiopian anti-money laundering normative frameworks is primarily the result of external pressure,<sup>196</sup> rather than voluntary compliance with the international norms. Ethiopia does not have much choice, but rather is compelled to gradually implement and comply with the international anti-money laundering standards. As the key informants of this study noted,<sup>197</sup> the developed world, specifically through the Bretton Wood Institutions (World Bank and IMF), has put pressure on Ethiopia, mainly through economic incentives, to formulate an anti-money laundering legal framework that adheres to international standards—the FATF 40 recommendations. The pressure emanated due to two reasons.<sup>198</sup> First, Ethiopia has emerged as one of the world's fastest-growing economies and this gets attention from the international community. Second, the Ethiopian economy was opaque, and the international community was concerned that criminals would take advantage of it. Unless proper anti-money laundering measures are in place, their financial systems and economies will be affected.

In 2004, Ethiopia amended the Penal Code of 1957. This was a good opportunity to include anti-money laundering provisions. As a result, a single article (Art. 684 of the Criminal Code) that deals with money laundering was incorporated.

Although the Criminal Code did not explicitly define the concept of money laundering, it incorporated three wider substantive offenses of money laundering: concealing, arrangement, and acquisition offenses (FDRE, 2004). Concealing offenses encompass disguising or transferring criminal property from one's actions through investment, transfer, or remission. The arrangement offense covers intentional involvement

in an arrangement to conceal or disguise the illicit origin of the property, helps any person involved in the commission of the same crime, or conceals the true nature, source, location, disposition, movement, or ownership or right with respect to the property (FDRE, 2004, Art. 684[5]). Lastly, the Criminal Code considers the acquisition offense, including the use and possession of property or money while knowing its unlawful source, as a money laundering offense.

The article provides the predicate offenses of money laundering. These are corruption, drug trafficking, illegal arms dealings, migrant smuggling, kidnapping, or hostage-taking, influencing individuals to give false testimony, grave endangering or sabotage of communications or transport, and unlawful seizure or control of an aircraft. Endangering fixed platforms on a continental shelf or an aircraft or a ship, misuse of signals and alarms, and unlawful consignment of dangerous goods are also provided as the predicate offenses of money laundering. The list of predicate offenses is not exhaustive. The Code leaves room to incorporate other serious crimes. For the purpose of money laundering, the Code defines serious crimes as crimes punishable with rigorous imprisonment of ten years or more, and crimes generating proceeds of money or property value of at least fifty thousand Ethiopian Birr (FDRE, 2004, Art. 684(7)).

The Criminal Code is a pioneer in introducing the concept of money laundering to the Ethiopian legal system. However, it has several deficiencies. First, there is a discrepancy between its English and Amharic versions on the issue of serious crime. The English version puts imprisonment and the value of the property as commutative requirements, but the Amharic<sup>199</sup> version puts them as alternative requirements. According to the informants of this study,<sup>200</sup> the discrepancy has created a problem in the application

of the law. The other limitation is the place of money laundering in the Criminal Code. Money Laundering was placed under title III Chapter II of the Criminal Code that deals with movable property, and subsequently, Chapter III comes with immovable property. Hence, there was an argument that money laundering is about a movable property and does not include immovable property.<sup>201</sup>

According to FATF, an anti-money laundering regime has to contain both preventive and punitive approaches. The prevention mechanisms include applying the principles of KYC/CDD, maintaining an internal control and risk management system, and reporting suspicious and above-threshold cash transactions to the financial intelligence units. The punitive approaches are reactive measures to punish the culprits and confiscate the proceeds or instrumentalities of crime. The Code focuses on the punitive approach, whereas the prevention approaches were overlooked.<sup>202</sup> From the nature of the Criminal Code, it is natural to focus on punitive measures. However, a comprehensive anti-money laundering legal norm has to include both punitive and preventive approaches. Even from the punitive approach, the emphasis of the Criminal Code was on the punishment of the culprits through imprisonment or fines, but not on tracing, freezing, seizing, and confiscating the proceeds or instrumentalities of crime.<sup>203</sup>

To address the shortcomings of the Criminal Code, in December 2009, the government of Ethiopia enacted a separate anti-money laundering and countering the financing of terrorism legislation—A Proclamation for the Prevention and Suppression of Money Laundering and Terrorist Financing No. 657/2009. A separate anti-money laundering law was enacted to “have an effective implementation of the provisions of the Criminal Code criminalizing money laundering as an offense” (FDRE, 2009, p. 1). This

law was intended to supplement the single provision of the Criminal Code. It devised money laundering prevention mechanisms and identified institutions responsible for its implementation.

The law designated the financial institutions, money transfer agents or a foreign exchange bureau, and a financial leasing company as the entities responsible for enforcing the country's anti-money laundering legislation. The Ethiopian Revenues and Customs Authority, a notary office or an organ authorized to authenticate documents, a licensing authority, and the Ethiopian Investment Agency were also designated to carry out the anti-money laundering legislation. Moreover, non-governmental organizations, religious institutions, charitable organizations, an advocate, an auditor or a licensed accountant, a person engaged in real estate business, a dealer in precious metals and gems, and a broker, dealer, or investment advisor were required to comply with the country's anti-money laundering legal norms (FDRE, 2009, Art. 2(1)). These institutions are responsible for protecting themselves from money launderers by identifying their customers, keeping records, and reporting suspicious and cash transactions.

Following the Proclamation, the National Bank of Ethiopia issued Customer Due Diligence of Banks Directives No. SBB/46/2010. This directive was enacted to "strengthen internal control and risk management systems of banks to prevent them from exposure to undue reputational, operational, legal and concentration risks that may result from abuse of money launderers and terrorist financiers" (NBE, 2010, p. 1). This directive requires banks to identify their customers and beneficial owners of any transaction, report suspicious transactions and wire transfers and keep records and make them available on a

timely basis to the National Bank of Ethiopia and other competent law enforcement authorities.

Even though the proclamation has detailed anti-money laundering provisions; it falls short of international anti-money laundering standards.<sup>204</sup> In 2010, FATF put Ethiopia under its International Committee Review Group (ICRG). This brought a drastic change in the development of the country's anti-money laundering regime. From the beginning of 2010 to 2013, the FATF semiannually in a copy and paste mode, proclaimed the strategic deficiencies of the country's anti-money laundering regime. FATF declared that money laundering is not adequately criminalized in Ethiopia. FATF also adds that the country lacks effective, proportionate, and dissuasive sanctions to deal with natural or legal persons that do not comply with the national anti-money laundering requirements (FATF, 2013a; FATF, 2012a; FATF, 2011a). Moreover, FATF expressed its discontent with Ethiopia's progress in addressing these deficiencies and Ethiopia's commitment to engage with the FATF Style Regional Bodies–ESAAMLG. Finally, the FATF called on its members and the international community to consider the risks arising from the deficiencies associated with the country's anti-money laundering system.

Unless the government of Ethiopia took essential measures, the FATF would have blacklisted the country as a non-cooperative country. As a developing country, backlisting could have serious ramifications for the country's reputation, trade, and business relations. It would isolate the country from the global economy and financial system. The country needs external assistance in the form of aid and loans from the IMF, the World Bank, and other international organizations and developed countries, and wants to attract foreign direct investment. If it is blacklisted, obtaining these will be a colossal challenge.

As a result, the government of Ethiopia has enacted a new anti-money laundering law, Prevention and Suppression of Money Laundering and Terrorist Financing Proclamation No. 780/2013, that complies with international anti-money laundering standards. The new act was issued on February 4, 2013.

In comparison to previous laws, this proclamation contains novel provisions on previously unaddressed issues such as criminalizing money laundering and ancillary offenses; enforcing anti-money laundering measures on financial institutions, designated non-financial businesses and professions, politically exposed persons, and corresponding banks; restraining illicit properties by competent authorities; and confiscating the proceeds or instrumentalities of crime. Further, in January 2014, the government issued Procedures for Freezing of Terrorist Assets Regulation No. 306 to facilitate the implementation of United Nations Security Council Resolutions 1267 and 1373.

To coincide with the new anti-money laundering law, the FIC enacted Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives No. 01/2014, which superseded the National Bank of Ethiopia's Customer Due Diligence of Banks Directives No. SBB/46/2010. This directive is issued to strengthen the internal control and risk management systems of financial institutions, to ensure the existence of sound policies, procedures, and controls that enable them to exercise KYC/CDD and identify their new and existing customers.

On June 27, 2014, the FATF welcomed Ethiopia's progress in improving its anti-money laundering regime, noting that Ethiopia has established the legal and regulatory frameworks to meet its commitments in its action plan in response to the strategic deficiencies identified by the FATF in June 2010 (FATF, 2014b). Ethiopia was therefore

no longer subject to the FATF's monitoring process under its ongoing global anti-money laundering compliance process.

In 2014, the World Bank conducted an on-site visit to Ethiopia and produced a mutual evaluation report on anti-money laundering and combating the financing of terrorism. The report analyses the level of compliance of the country's anti-money laundering system with the FATF 40 Recommendations and its level of efficacy and provides recommendations on how the system would be strengthened. The report specifically encourages the government of Ethiopia to complete the national risk assessment begun in 2013, to broaden and reorient suspicious transaction reporting, analysis, and money laundering investigations, prosecutions, and asset freezing and confiscation towards the most significant sources of illicit proceeds and identification of the most common money laundering methods/techniques (World Bank-ESAAMLG, 2015). In the same vein, the report urges Ethiopia to provide further training and awareness-raising for government officials and reporting entities, to expand financial services to the unbanked and to those without access to financial services, and to provide more resources/staff to the FIC (World Bank-ESAAMLG, 2015). Following that, the government finalized the national risk assessment in 2016.<sup>205</sup> The FIC enacted a DNFBPs Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives No. 02/2016. This directive is issued to strengthen internal control and risk management systems of certain non-financial businesses and professions that are susceptible to money laundering, such as lawyers, accountants, and real estate dealers. The directive is also enacted to ensure the existence of sound policies, procedures, and controls that enable them to exercise KYC/CDD and identify their new and existing customers.

In February 2017, FATF in its public statement stated that Ethiopia has shown a high-level political commitment to engage with the FATF and ESAAMLG to improve the effectiveness of its anti-money laundering regime and address any related technical deficiencies. Further, FATF recommends Ethiopia to (i) implement the findings of its national risk assessment; (ii) fully integrate DNFBPs into its anti-money laundering regime; (iii) ensure that the proceeds or instrumentalities of crime are confiscated; (iv) implement terrorism-related targeted financial sanctions and proportionately regulating non-profit organizations in line with a risk-based approach; and (v) establish and implement weapons of mass destruction-related targeted financial sanctions (FATF, 2017a). In June and November 2017, the FATF released similar public statements and listed Ethiopia as one of the “jurisdictions with strategic anti-money laundering deficiencies that pose a risk to the international financial system” (FATF, 2017b; FATF, 2017c). In a similar vein, the European Commission blacklisted Ethiopia for having strategic deficiencies in its anti-money laundering regime that pose a significant threat to the Union’s financial system (EC, November 12, 2017). The Commission also urges, “banks situated in Europe to apply enhanced due diligence on financial flows from Ethiopia” (Samson, November 12, 2017).

As a result, Ethiopia has begun implementing the findings of the national risk assessment and integrating some DNFBPs into its anti-money laundering system.<sup>206</sup> The country has also begun investigation and prosecution of money laundering and its precursor offenses, as well as tracing, freezing, and seizing the proceeds or instrumentalities of crime with the intent of confiscation (Fasika, October 11, 2020; FDRE, 2016b; Muluken, October 12, 2020).

Aside from these, Ethiopia has enacted a “Prevention and Suppression of the Financing of the Proliferation of Weapons of Mass Destruction Proclamation No. 1132/2019”. A National Anti-Money Laundering and Combating the Financing of Terrorism Policy was also enacted in 2019. The policy was developed based on the findings of the Mutual Evaluation Report of 2015 and the National Risk Assessment of 2016. The policy's primary objectives are to detect, deter, and prevent money laundering and related predicate offenses, as well as to protect the integrity of the financial system from illegal activities and illicit financial flows (FDRE, 2019a). Moreover, the FIC has issued Suspicious Transactions Detection and Reporting Guidelines for Financial Institutions No. 02 of 2019.

In October 2019, the FATF praised Ethiopia's progress in improving its anti-money laundering regime (FATF, 2019b). FATF specifically stated that Ethiopia’s anti-money laundering frameworks have been improved and the technical deficiencies identified in February 2017 have been addressed. Finally, FATF proclaimed that “Ethiopia is no longer subject to the FATF's monitoring process under its ongoing global anti-money laundering compliance process” (FATF, 2019b).

The preceding discussion revealed that Ethiopia's anti-money laundering regime evolved primarily as a result of external pressure. External pressure has a clear and deep impact on the evolution of the country's anti-money laundering regulations. The FATF, IMF, UNODC, World Bank, and, to a lesser extent, the ESAAMLG, are the architects for the development of Ethiopia's anti-money laundering legal regime. This is reflected in the policy document, directives, and manuals. Amharic is the federal government's working language. The policy, laws, manuals, and formats prepared to combat and prevent money

laundering are expected to be in Amharic. However, except the standard operating procedures to receive, analyze and disseminate financial intelligence, and the sideline interpretation of the anti-money proclamation No. 780 and the FIC establishment regulation No. 171 (a norm on the same level laws of the country); other documents and formats are in English. This could be to obtain external consultation and technical assistance. Ethiopia receives technical assistance from the UNODC, the World Bank, the ESAAMLG, and other partner organizations in preparing anti-money laundering regulations and conducting the national risk assessment.<sup>207</sup> Obtaining external consultation on the formulation of normative frameworks is necessary, particularly to maintain international standards. Another reason for enacting Ethiopian anti-money laundering normative frameworks in a foreign language could be to make the work of external monitoring groups easier and to raise Ethiopia's name and status in the international arena.<sup>208</sup>

Even though Ethiopia's anti-money laundering normative frameworks emerged primarily as a result of external pressure, there have been several attempts to socialize<sup>209</sup> the legal norms. Several workshops and conferences were held to discuss the draft bills of the anti-money laundering laws, the mutual evaluation report, the national risk assessment, and the National Anti-money Laundering and Combating the Financing of Terrorism Policy.<sup>210</sup> Several awareness-raising trainings were also provided. The workshops and trainings were designed to strengthen the normative persuasion of local law enforcement agencies, regulatory authorities, reporting entities, and the general public.<sup>211</sup> Similarly, the workshops, conferences, and trainings help to develop a better understanding of the ramifications of money laundering, money laundering prevention and suppression

mechanisms, and the importance of actively enforcing the country's anti-money laundering legal norms.

In sum, Ethiopia's gradual adoption of the international anti-money laundering standards is primarily the result of external pressure. However, several attempts have done to socialize the legal norms among anti-money laundering actors. As a result, Ethiopia was removed in August 2019 from the FATF's list of countries that have strategic anti-money laundering deficiencies.

## **6.2. Pillars of the Ethiopian Anti-money Laundering Legal Norms**

The formulation and adoption of anti-money laundering laws, directives, and national policy is a major step toward combating money laundering. According to a research participant,<sup>212</sup> “this demonstrated the government's strong commitment to strengthening its anti-money laundering regime”. The government's commitment to strengthen its anti-money laundering regime is based on the belief that money laundering is not only jeopardizing the integrity, trust, and efficiency of the financial system, but also posing a threat to the country's security, stability, and economic development.<sup>213</sup>

The Ethiopian anti-money laundering legal frameworks follow a twin-track approach—prevention and repression. The prevention approach aims to prevent money laundering by imposing identification and reporting requirements on financial institutions as well as certain non-financial businesses and professions. This approach intends to deter criminals from laundering by increasing the costs of such illegal operations. On the other hand, the repression approach aims at punishing money launderers using criminal law, and freezing, seizing, and confiscating the proceeds or instrumentalities of illicit activities.

### **6.2.1. Prevention Approach**

Prevention in the anti-money laundering world refers to preventing money launderers from abusing financial institutions and certain non-financial businesses and professions (henceforth the reporting entities). Similarly, the Ethiopian anti-money laundering law imposed four obligations on reporting entities to prevent money launderers from abusing them. These include following a risk-based approach, undertaking adequate KYC/CDD measures, keeping copies of all records obtained through CDD measures, and reporting suspicious transactions, cash transactions, wire transfers, or cross border transactions of cash and bearer negotiable instruments (FDRE, 2013, Art. 6-12). Furthermore, the law considers proper licensing and risk-based supervision of financial institutions and certain non-financial businesses and professions as money laundering prevention measures (FDRE, 2013).

#### ***Pursuing a Risk-based Approach***

A robust internal control and risk management system protects financial institutions, as well as certain non-financial businesses and professions, from undue reputational, operational, legal, and concentration risks associated with money laundering. The Ethiopian anti-money laundering law requires reporting entities to combat money laundering using a risk-based approach. Financial institutions and designated non-financial businesses and professions (DNFBPs) must take appropriate steps to assess and identify money laundering risks as well as manage and mitigate those risks (FDRE, 2013, Art. 6 (1); FIC, 2016a, Art. 6-9; FIC, 2014, Art. 6-9).

The risk of money laundering and associated predicate offenses would be assessed at the national and sectoral levels. The reporting entities are indebted to undertake sector-

specific risk assessments.<sup>214</sup> A risk-based approach would allow reporting entities to prioritize their actions, and effectively allocate their limited resources, which, in turn, enables them to mitigate the peril of money laundering.<sup>215</sup> The risk assessment must be documented, updated on a regular basis, and easily accessible to the FIC, police, prosecutor, and other competent and regulatory authorities (FDRE, 2013, Art. 6 (2)).

Financial institutions and DNFBPs must also establish, implement, monitor, and maintain an effective internal control system to discourage criminals from using their facilities for money laundering. These institutions are expected to adopt a written policy framework outlining their commitment to anti-money laundering regulations.

Financial institutions and DNFBPs that have the status of a legal person are also required to appoint a compliance officer at a senior management level to ensure compliance with the anti-money laundering measures (FIC, 2016a; FIC, 2014). The officer is in charge of developing an anti-money laundering compliance program, reporting suspicious transactions reports to the FIC, conducting regular and internal supervision, coordinating anti-money laundering trainings, and acting as a liaison officer and point of contact (FIC, 2016a, Art. 5(22); FIC, 2014, Art. 5(2)). Furthermore, in order for the anti-money laundering compliance unit to function properly, financial institutions and DNFBPs must allocate adequate resources to it.

### ***Know Your Customer/Customer Due Diligence***

Knowing your customer (KYC) and conducting customer due diligence (CDD) are critical components of money laundering prevention system. Financial institutions or DNFBPs have to identify their customers, beneficial owners, and agents of the customers (FDRE,

2013). The law prohibits reporting entities from maintaining anonymous accounts or accounts with clearly fictitious names.

Customer identification is required for both natural and legal persons. A natural person's customer identification includes identifying given or legal name and all other names used; permanent address; telephone number, fax number, and e-mail address; date and place of birth; nationality; occupation, public position held, and/or employer name; type of account; and signed statement certifying the accuracy of the information provided (FIC, 2016a. Art. 15; FIC, 2014, Art. 16(1)). KYC for legal persons entails identifying the name, legal form and proof of existence, some form of official identification number such as a tax identification number, address which includes the country, city/town/*Woreda/Kebele* in which the head office is located, and if available, house number, mailing address, telephone number, and fax number, and individuals who have the authority to function the legal person (FIC, 2016a. Art. 16; FIC, 2014, Art. 17(2)). Reporting entities must validate the information provided by their customers.

KYC is usually performed at the outset of a business relationship between the reporting entity and its customers. This is to prevent reporting entities from having business or professional relationships with criminals.<sup>216</sup> After reporting entities knowing their customers, the law required them to conduct CDD, which is a continuous process. Reporting entities must take the necessary steps to review and update their customer information on a regular basis.<sup>217</sup> Reporting entities are indebted to undertake CDD measures, when they carry out occasional cash transactions with a customer that exceeds Birr 300,000, USD 15,000, or equivalent in other foreign currencies; or when they carry out wire transfers that exceed Birr 20,000, USD 1,000, or equivalent in other foreign

currencies. The reporting entities are also indebted to carry out CDD measures when there is a suspicion of money laundering or terrorist financing; or there are doubts about the veracity or adequacy of previously obtained customer identification data (FIC, 2014, Art. 26(2)).

Depending on the risk profile of customers, CDD measures could be simplified or enhanced. Simplified CDD measures are implemented when the risk of money laundering is low. Reporting entities shall take enhanced CDD measures when there is a suspicion of money laundering and terrorism financing, or when the customers, countries, geographic areas, particular products, services, transactions, or delivery channels are higher risk categories (FIC, 2014, Art. 30(1)). CDD measures must be undertaken by reporting entities to ensure that transactions are consistent with their knowledge of their customer, the customer's commercial activities and risk profile, and, if necessary, the sources of the customer's funds.<sup>218</sup>

A national identity card would make it easier for financial institutions to undertake CDD measures. In 2012, the country issued the Registration of Vital Events and National Identity Card Proclamation No. 670. One of the law's innovations is the introduction of the national identity card system, which has yet to be implemented. According to the law, "the issuance of national identity cards to citizens has become important for the protection of national security, as well as for the provision of efficient services to citizens by the public and private sectors" (FDRE, 2012, P. 1). The law also stipulated that any Ethiopian who has attained the majority age has the right to obtain a national identity card (FDRE, 2012, Art. 56(1)). Moreover, it provides the registration for the national ID card, the issuance of the card, and the information that the card will have. The national ID card will be valid for

ten years from the date of its issuance. The card will have a national identification number, and one number is assigned for one person only. The law was expected to become operational before 2014. However, the legislature has extended the enforcement of the law until July 8, 2016.

Regrettably, the law has yet to be implemented. In the country, there is no national identity card system. At the present, each *Kebele* (the lowest administrative unit) is issuing its own identity card. There is a good chance that an individual can have multiple identity cards with the same or different names. As a result, individuals are able to open various bank accounts in his/her real or fictitious names. This creates difficulty for banks and other financial institutions to undertake anti-money regulations such as KYC, CDD, and reporting dubious transactions. This also makes it difficult for law enforcement agencies to track down and identify suspected perpetrators.

The Ethiopian anti-money laundering law provides due emphasis for transactions involving politically exposed persons. A politically exposed person is defined as “any natural person who is or has been entrusted with prominent public functions in any country or an international organization as well as a member of such person's family or any person closely associated with him” (FDRE, 2013, Art. 2(11)). The FIC's directives regarded business transactions conducted by politically exposed persons as high risk and established a list of individuals who are considered politically exposed persons (FIC, 2016a; FIC, 2014).

According to the directives, politically exposed persons comprise Federal and State governments, Heads of States and Governments, Ministers, State Ministers, Heads of Bureaus, Deputy Heads of Bureaus, Mayors, Deputy Mayors, Commissioners, Deputy

Commissioners, Director Generals, Deputy Director Generals, Ambassadors, Consulates, the Speaker and Deputy Speaker of the House of Peoples' Representative and House of Federation, Federal and State top judicial officials, military officials starting from the rank of Brigadier General, senior Executives of State-owned corporations, leaders of higher education institutions and political party officials (FIC, 2016a, Art. 2(10); FIC, 2014, Art. 2(20)). Moreover, persons who are or have been entrusted with a prominent function by an international organization, such as directors, deputy directors, and members of the board or equivalent functions, are considered as politically exposed persons. An immediate family member of these officials, such as a spouse, partner, children, parents/parents-in-law, grandparents, and grandchildren are embraced under the category of politically exposed persons. Furthermore, the FIC has the mandate to designate persons or companies related or closely associated with the politically exposed person or any other individuals who hold a position in any of the offices as a politically exposed person.

Before entering into a business relationship with a politically exposed person, financial institutions and DNFBPs must obtain approval from their respective senior management, take all reasonable measures to identify the customer's source of wealth and funds, and provide increased and ongoing monitoring of the business relationship with the customer (FDRE, 2013).

One of the advancements of Ethiopia's anti-money laundering law is the designation of politically exposed persons as susceptible to money laundering. The law places due emphasis on politically exposed individuals for two reasons: first, their vulnerability to corruption and other office-related crimes is high, and second, their official position, such as immunity, would make it difficult to trace and investigate the crime

committed.<sup>219</sup> Money laundering and other networked criminal activities are carried out in a clandestine manner and highly cognate to public officials. Criminals corrupt state officials in order to gain protection for their illegal businesses, and the immunity (diplomatic, constitutional, *ratione personae*<sup>220</sup>, or *ratione materiae*<sup>221</sup>) conferred upon these individuals is an obstacle to detecting criminal activity.<sup>222</sup>

Along with this, these individuals have the power to attack investigators and obstruct the investigation process.<sup>223</sup> As a result, providing due emphasis to politically exposed persons has an essential role in combating money laundering. This makes the law in line with international legal norms such as the FATF Recommendations and the Wolfsburg Group principles. However, the law has certain shortcomings. First, the list of politically exposed persons is not exhaustive and is open for interpretation.<sup>224</sup> Second, by providing a list of politically exposed persons, criminals can determine who to corrupt and who not to corrupt to avoid further scrutiny of enhanced due diligence.<sup>225</sup> Third, the country's anti-money laundering law targeted individuals with prominent positions in public institutions and international organizations.<sup>226</sup> Individuals with prominent positions in private institutions and multinational corporations, on the other hand, are exempt from the country's anti-money laundering law.

### ***Reporting of Financial Transactions***

Financial institutions and certain non-financial businesses and professions are required to report suspicious transactions, cash transactions, wire transfers, or cross-border transactions of cash and bearer negotiable instruments. These reports can be important sources of information for investigators, either by triggering an investigation or providing information or evidence to support an ongoing investigation or prosecution.

## **1. Cash Transaction Report**

Reporting entities are indebted to submit a cash transactions report (CTR) to the FIC. As discussed in Chapter 4, the Ethiopian economy is primarily a cash-intensive economy with a high vulnerability to money laundering. To address this, the law imposed reporting requirements on financial institutions and certain non-financial businesses and professions for transactions conducted via cash. Initially, the law requires reporting institutions to report cash transactions exceeding 200,000 Ethiopian Birr, USD 10,000, or equivalent in other foreign currencies (NBE, 2010, p. 10). However, as of January 24, 2014, the minimum threshold is 300,000 Ethiopian Birr or 15,000 USD or equivalent in other foreign currencies (FIC, 2014, Art. 41(1)). The report encompasses transactions that are carried out either in a single operation or in several operations that appear to be linked or structured.

## **2. Suspicious Transaction Report**

The financial institutions and DNFBPs are indebted to report dubious transactions. This is an essential component of anti-money laundering measures. Reporting suspicious transactions report (STR) enables the competent authorities to detect money laundering and associated predicate offenses. This would eventually enable to bring the perpetrators to justice, trace, seize, and freeze the proceeds or instrumentalities of crime, and prevent future criminality.<sup>227</sup> However, the reporting entities were in trouble to answer the question of what constitutes a suspicious transaction? The FIC's directives, as well as the Suspicious Transactions Detection and Reporting Guideline for Financial Institutions, address this quandary. So, according to the directives and the guideline, a transaction is suspicious if it is (i) the proceeds of crime<sup>228</sup>, (ii) inconsistent with a customer's known activities and

profile or the normal business expected for that type of delicate customer, or (iii) involving shell companies (FIC, 2019, p. 6; FIC, 2016a, Art. 2(22) & 34-35; FIC, 2014, p. 6). When a transaction deviates from the established identity of the owner, agent, or beneficiary, financial institutions and DNFBPs are required to file a STR. The FIC prioritizes suspicious transaction reports among all reports filed with the Center.<sup>229</sup> Unlike, cash transaction reports, there is no minimum monetary threshold for reporting suspicious transactions. As a result, regardless of the amount of cash involved, any transaction deemed suspicious should be reported to the FIC. The law prohibits financial institutions and DNFBPs from disclosing that they have submitted STR, CTR, or any other report to the FIC. However, the directives and the guideline, sometimes classify cash transactions as suspicious transactions. This results in a fusion of CTR and STR, which complicates the reporting, analyzing, and disseminating of financial intelligence to supervisory authorities and law enforcement agencies.

### **3. Wire Transfer Report**

Financial institutions and money transfer agents are required by law to submit wire transfer reports to the FIC. Wire transfer is defined by the law as “any transaction carried out on behalf of an originator person through a financial institution by electronic means to make an amount of money available to a beneficiary at another financial institution” (FDRE, 2013, Art. 2(19)). Wire transfers include both international and domestic transfers between financial institutions. Although financial institutions and money transfer agents are obliged to submit wire transfer reports, the prime law does not provide a monetary minimum. The financial institutions' compliance directive (2014, Art. 34) addressed this legal lacuna. The

directive requires financial institutions to file reports to the FIC on money transfers that exceed Birr 20,000, or USD 1,000, or the equivalent in other foreign currencies.

#### **4. Cross-Border Transaction of Cash and Bearer Negotiable Instruments**

The Ethiopian anti-money laundering law imposed two types of obligations on the Ethiopian Customs Commission concerning cross-border cash transactions and bearer negotiable instruments.<sup>230</sup> First, the Commission must regulate cross-border transactions of cash and bearer negotiable instruments. Second, when there is a suspicion that the cross-border transactions of cash and bearer negotiable instruments are cognate to money laundering and its predicate offenses, the Commission must notify the FIC (FDRE, 2013, Art. 3).

The law, however, has inadequacies when it comes to tracing the origin of cash or negotiable instruments. Neither the holder is required to declare, nor the Commission is authorized to investigate the sources of the cash or negotiable instruments. Therefore, how can the Commission determine whether the cash or negotiable instrument is associated with money laundering and related predicate offenses? Or, if that is the case, how can the Commission file a report on whether the cross-border transaction is cognate to money laundering or associated predicate offenses?

Financial institutions and DNFbps must keep copies of all records obtained through CDD measures, account files, business correspondence, including the results of any analysis undertaken for at least ten years after the business relationship has ended (FDRE, 2013, Art. 10). The FATF required countries to maintain records for five years after the business relationship ended. However, in the Ethiopian anti-money laundering legislation, reporting entities are required to keep records for ten years. These records can

be a valuable source of information for investigating potential cases of money laundering. The records must be easily accessible to the FIC or any other competent authorities.

### *Supervision*

To make the prevention of money laundering solid, the law mandated regulatory authorities and the FIC to conduct supervision. The goal of supervision is to ensure that the reporting entities are adhering to the anti-money laundering regulations. The FIC is empowered to supervise reporting entities, including both financial institutions and non-financial businesses and professions (FDRE, 2013, Art. 13(8)). The Center may also delegate its supervisory function to the authorities in charge of regulating and supervising reporting institutions. For instance, the Center delegated the supervision of charities and societies to the Ethiopian Charities and Societies Agency, the supervision of dealers in precious stones or metals to the Customs Commission or the Ministry of Trade, the supervision of accountants to the Ethiopian Accountants and Auditors Board, and the supervision of lawyers to the Office of Federal Attorney General.<sup>231</sup>

The supervisory authorities have a bigger role to play in implementing the country's anti-money laundering regulations. Specifically, on the issues of money laundering and associated predicate offenses, these authorities shall: (i) cooperate and share information with the competent authorities, (ii) ensure the reporting entities adopt and enforce measures consistent with the anti-money laundering law, (iii) report promptly to the FIC any information concerning suspicious transactions, and (iv) keep statistics on the subject (FDRE, 2013, Art. 22(2)). In conducting supervision, when the regulatory authorities found any dubious activity, are required to report it to the FIC. Besides reporting, they have to take corrective measures and sanctions. When regulatory authorities discover violations of

anti-money laundering regulations by reporting entities, they will impose one or more of the following measures and sanctions: (a) written warnings; (b) ordering to comply with specific instructions; (c) ordering regular reports from reporting entities on the measures they are taking; (d) punishing monetary fines ranging from 10,000 to 100,000 Birr; (e) barring individuals from employment in the business sector or profession; (f) limiting the powers of managers, directors, and controlling owners; and (g) suspending or revoking of licenses (FDRE, 2013, Art. 22(3)). The regulatory authorities must notify the FIC of any measures or sanctions they have taken.

Normatively, there is a general legal framework that governs anti-money laundering supervision. However, detailed guidelines, policies, or procedures are lacking.<sup>232</sup> Financial penalties for non-compliance with anti-money laundering legal norms are both low and disproportional.<sup>233</sup> In other words, fining a financial institution ETB 10,000-100,000 (approximately US\$ 300-3000) for operating a million or billion-dollar business is unlikely to deter it. In supervising reporting entities, the anti-money laundering law creates an overlapping mandate and extra burden on the FIC. This overlapping of mandates results in the duplication of tasks and resources, as well as positive and negative conflicts of jurisdiction.<sup>234</sup>

### **6.2.2. Repression Approach**

The Ethiopian anti-money laundering law strongly promotes and encourages the prevention of money laundering. When individuals or groups transgress the law and commit the act of money laundering, the law provides the mechanisms for detecting the crime, punishing the wrongdoers, and tracing, freezing, seizing, and confiscating the proceeds or instrumentalities of illicit activities. This is commonly known as suppression

approach. Like the prevention approach, this approach has four essential components: criminalization of money laundering with a list of underlying offenses; investigation and prosecution of money laundering; punishment of perpetrators; and confiscation of the proceeds or instrumentalities of crime (FDRE, 2013).

### ***Criminalizing Money Laundering and Associated Predicate Offenses***

The first footstep in combating money laundering is the criminalization of the act with a list of predicate offenses. Criminalization prevents the commission of money laundering or predicate offenses by providing due notice of prohibited acts and penalties. Further, it paves the way for the investigation, prosecution and punishment of criminals, and confiscation of the proceeds of crime.

As discussed in Chapter 3, money laundering is criminalized under Art. 29 of the Ethiopian Anti-Money Laundering Law. The Ethiopian anti-money laundering law also illustrated ancillary offenses of money laundering. Even though the law does not define what ancillary offenses mean, failure to comply with the anti-money laundering regulations, by any person, financial institutions, and non-financial businesses and professions would subject them to ancillary offenses. As discussed in the prevention approach, individuals, financial institutions, and DNFBPs have anti-money laundering compliance obligations. Because of this, failure to comply with anti-money laundering regulations carries criminal responsibility and is treated as an ancillary offense. These include failure to declare currency or bearer negotiable instruments when entering or leaving Ethiopia; failure to maintain adequate, accurate, and current information on the beneficial ownership and control structure of legal persons; and failure to undertake the identification of customers and risk management measures (FDRE, 2013, Art. 30). Failure

to implement monitoring measures, failure to maintain records or destroy or remove such records, failure to implement internal control programs, and failure to provide access to information or records in a timely fashion are also considered ancillary offenses. Moreover, the law provides failure to submit a report relating to suspicious and cash transactions to the FIC as ancillary offenses.

Criminalizing failure to comply with money laundering prevention requirements is one of the unique features of the Ethiopian anti-money laundering law. However, the ancillary offenses of money laundering incorporated into the Ethiopian anti-money laundering law differ from the international anti-money laundering standard set by the FATF. The FATF, on the interpretative note of Recommendation No. 3, provides the ancillary offenses of money laundering. According to FATF, the ancillary offenses include “participation in, association with or conspiracy to commit, attempt, aiding and abetting, facilitating, and counseling the commission of money laundering” (FATF, 2012-2019, p. 33). The FATF considered committing money laundering in a secondary capacity either as an accomplice or instigator as ancillary offense. The Ethiopian anti-money laundering law, on the other hand, treated committing money laundering in a secondary capacity as committing the crime in a principal capacity. By the same token, in the Ethiopian anti-money laundering law, participation in, association with, or conspiracy to commit, attempt, aiding and abetting, facilitating, and counseling the commission of money laundering are not ancillary offenses but are considered committing the crime in a principal capacity. A research participant from the FIC noted that<sup>235</sup> “this is one of the areas where the FATF recommendation and Ethiopian anti-money laundering legislation differ”. The participant

added that due to this and other similar issues the FIC is considering the amendment of the country's anti-money laundering law—Proclamation No. 780/2013.

### ***Investigation and Prosecution of Money Laundering***

The criminalization of money laundering, along with its list of predicate offenses, paves the way for the investigation and prosecution of criminal perpetrators. The law empowered the FIC, the Federal Police Commission, and the Office of Federal Attorney General to investigate the commission of predicate offenses and money laundering (FDRE, 2016c, FDRE, 2013). Typically, the FIC would conduct a preliminary investigation. When the Center suspects the commission of the predicate offenses or money laundering, it refers the case to the Ethiopian Federal Police Commission.<sup>236</sup> The Federal Police, specifically the Federal Bureau of Investigation usually conduct the investigation. Due to the clandestine nature of the crime, the law allowed the investigative organ to use special investigation techniques such as intercepting communications, undercover operations, accessing computer systems, and controlled delivery (FDRE, 2013, Art. 25(1)). However, a judicial authorization is required to utilize these investigation techniques. Following the completion of the investigation, the police prepared an investigation report and submitted the file (docket) to the Office of Federal Attorney General. After receiving the file, the prosecutor has the authority to: prosecute the accused/issue a charge, order further investigation, order a preliminary inquiry<sup>237</sup> to be held, or refuse to institute proceedings<sup>238</sup> (The Ethiopian Criminal Procedure Code, 1961, Art. 38).

### ***Punishment of Perpetrators***

Individuals convicted of committing money laundering are punishable either by imprisonment, fine, or both. The law provides 10-15 years of imprisonment and a fine not exceeding 100,000 Ethiopian Birr. In aggravated circumstances,<sup>239</sup> the sentence was increased from 15 to 25 years in prison and a fine of up to Birr 150,000 (FDRE, 2013, Art. 29 (1 and 2)). Even though the law provided for more severe punishments in aggravating circumstances, lesser penalties for minor crimes, such as simple theft, are not specified. In other words, according to the Criminal Code of 2004 and Ethiopia's anti-money laundering law, simple theft is the predicate offense of money laundering. So, punishing a simple theft perpetrator with 10 years in prison is not proportional. This reflects the Ethiopian legal system's overcriminalization of money laundering.

### ***Confiscation of the Proceeds or Instrumentalities of Crime***

The country's anti-money laundering law unequivocally stated that imprisonment and fine do not prohibit the court from ordering the confiscation of the proceeds or instrumentalities of crime (FDRE, 2013, Art. 35). This is an indispensable component of the international anti-money laundering standards. International conventions including the Vienna, Palermo and Merida, and the FATF Recommendations call for State Parties and member countries to adopt the necessary measures to enable identification, tracing, freezing, or seizing, and eventually confiscation of the proceeds or instrumentalities of various crimes. Attacking the proceeds or instrumentalities of crime, (i) prevents the commission of further crimes by reducing the incentive for offenders, (ii) protects the integrity of the country's financial and bureaucracy system from infiltration by criminals, and (iii) is an effective means of recovering properties that can be used to compensate victims of criminal activities.<sup>240</sup>

The legal bases for the confiscation of the proceeds or instrumentalities of crime are provided in Art. 35-37 of the Ethiopian anti-money laundering law. Other laws such as the Revised Anti-Corruption Special Procedure and Rules of Evidence Proclamation No. 434/2005 and its amendment Proclamation No. 882/2015; the Ethiopian Criminal Code—Proclamations No. 414/2004; and Customs Proclamation No. 859/2014 have provisions on provisional measures<sup>241</sup> and confiscation of illicit proceeds.

The mandate to order trace, freeze, seize, and confiscate the proceeds or instrumentalities of crime is given to the court. In exceptional circumstances, however, the FIC or investigative authorities are authorized to seize and freeze the proceeds or instrumentalities of crime (FDRE, 2015a, Art. 8(4); FDRE, 2013, Art. 19(3)).

The Ethiopian anti-money laundering law incorporates both conviction and non-conviction-based confiscations (FDRE, 2015a, Art. 29 and 32; FDRE, 2013, Art. 35). In a conviction-based confiscation, the proceeds or instrumentalities of crime can only be seized once the suspected person has been convicted of money laundering or predicate offenses. A criminal confiscation is a common approach to asset confiscation, in which investigators gather evidence, trace, and secure assets, prosecute, and obtain a conviction. The proceeds or instrumentalities of crime are confiscated in non-conviction-based confiscation regardless of any criminal proceeding against the perpetrator. Non-conviction-based (civil) confiscation is used when a conviction of the suspected criminal(s) cannot be secured for a variety of reasons. In Ethiopia, a court would order non-conviction-based confiscation if there could be no conviction because the perpetrator is deceased, unknown, or has absconded (FDRE, 2013, Art. 35(3)).

Even though the law provides for provisional and confiscatory measures on proceeds or instrumentalities of crime, it falls short of being comprehensive in terms of managing and disposing of confiscated assets, particularly those that depreciate quickly.<sup>242</sup> There is no unified national policy objective for tracing, seizing, freezing, and confiscating the proceeds or instrumentalities of crime.

In sum, the Ethiopian anti-money laundering normative frameworks include both the preventive–regime of reporting and regulation and punitive approaches. The prevention approach focused on protecting reporting entities from abuse by money launderers. The punitive approach is a reactionary measure. It is used following the commission of money laundering. This approach is primarily concerned with punishing the perpetrators and recovering the proceeds or instrumentalities of the crime.

### **6.3. Inter-Agency and International Coordination and Cooperation**

In the prevention and suppressing of money laundering, the Ethiopian anti-money laundering regime followed a whole government approach (detailedly discussed in the next chapter). All government institutions and private actors which are directly or indirectly linked to money laundering are included in the National Anti-money Laundering Committee. In a nutshell, the Ethiopian anti-money laundering system is built on the principle that money laundering has multifaceted causes and the prevention and suppression of the financial and security apocalypse require the engagement of several stakeholders.<sup>243</sup> Thus, having a comprehensive legal norm governing inter-agency coordination and international cooperation is vital to the success of the country's anti-money laundering efforts. In this section, the researcher examines the legal norms that govern inter-agency and international coordination and cooperation.

Ethiopia has built the normative frameworks of domestic and international cooperation through the enactment of several laws and ratification of international and regional instruments. Ethiopia has ratified the Palermo Convention and its supplementary Protocols, the Vienna Convention, the Merida Convention, the African Union Convention on Preventing and Combating of Corruption, and the IGAD Conventions on Mutual Legal Assistance and Extradition. These treaties became part of the country's law upon ratification (FDRE, 1995, Art. (4)). Ratifying these international and regional instruments provides a solid foundation for the country to establish robust cooperation and coordination mechanism with other countries, regional, and international organizations. Furthermore, several domestic legal frameworks governing domestic and international cooperation have been enacted.

In the country, domestic and international cooperation is governed by the National Anti-money Laundering and Combating the Financing of Terrorism Policy, Criminal Justice Policy, revised Criminal Code, Anti-Money Laundering Law, and other specific legislation. The primary goal of the country's National Anti-money Laundering and Combating the Financing of Terrorism Policy is to foster domestic and international cooperation and coordination among anti-money laundering stakeholders (FDRE, 2019a). Section 3.22 of Ethiopia's Criminal Justice Policy (2011) provides for international cooperation based on bilateral or multilateral agreements or arrangements or in some cases, on domestic law. Articles 11, 12, and 21 of the Criminal Code of 2004, as well as articles 38-51 of the Ethiopian Anti-money Laundering Law–Proclamation No. 780/2013, govern requests for mutual legal assistance and extradition. The request for mutual legal assistance includes the request to collect evidence and provide it to foreign counterparts, identify or

trace the proceeds or instrumentalities of crime, execute freezing or seizure and other provisional measures, confiscation of funds or property, and any other form of mutual legal assistance that is not contrary to Ethiopian laws (FDRE, 2013, Art. 39(2)). According to Art. 11(3) of the Criminal Code, “if the criminal has taken refuge in a foreign country, his extradition shall be requested so that he may be tried under Ethiopian Law.”

The FATF encourages informal methods of international cooperation such as financial intelligence unit-financial intelligence unit, police-police, or prosecutor-prosecutor cooperation before submitting a formal mutual legal assistance request (FATF, 2012-2019, Recommendation 40). This is also clearly manifesting in Ethiopia’s legal norms. The Office of the Federal Attorney General of Ethiopia is empowered to undertake international relations and cooperation in criminal and civil matters (FDRE, 2016c, Art. 6(12). The FIC is also authorized to agree with any foreign counterpart to share information or otherwise cooperate to prevent and suppress money laundering and predicate offenses (FDRE, 2013, Art. 14). The Center is also authorized to receive requests for mutual legal assistance and extradition from competent foreign authorities regarding money laundering and terrorism financing (FDRE, 2013, Art. 47). Moreover, the Federal Police Commission has the authority to establish relationships with foreign counterparts and exchange information with international police, to disseminate information or criminals wanted at the international level to regional police commissions, and to pursue and arrest such suspects (FDRE, 2011c, Art. 6 (37 & 38)).

Invoking political reasons is one of the barriers to requesting mutual legal assistance and extradition.<sup>244</sup> Criminals or host countries may argue that mutual legal assistance or extradition is being requested for offenses related to political office or

offenses motivated by political motives, and that the request has to be refuted. However, the Ethiopian anti-money laundering law provides that money laundering and financing of terrorism “may not be regarded as political offenses, or offenses connected with a political offense, or offenses inspired by political motives” (FDRE, 2013: Art. 38 (2)). Though it is highly contentious, the law attempted to exclude money laundering from the definition of political offenses. This would contribute to the facilitation of mutual legal assistance and extradition.

#### **6.4. The Adequacy of the Normative Frameworks**

Since 2004, Ethiopia has enacted two anti-money laundering proclamations, one regulation, three directives, one standard operating procedure, one guideline, and a National Anti-Money Laundering and Combating the Financing of Terrorism Policy. From these legal norms, one proclamation and one directive were amended. In addition to this, the country conducted a national risk assessment of money laundering and terrorist financing and developed a national anti-money laundering and countering the financing of terrorism roadmap. Furthermore, the country has ratified several international and regional conventions concerning money laundering, organized crime, and other criminal matters. A logical question that arises is whether the country’s anti-money laundering normative frameworks are adequate in combating and preventing the menace of money laundering?

In this study, the adequacy of the country’s anti-money laundering legal norms is examined in terms of addressing the risk factors, and regulating the laundering mechanisms. The data collected demonstrated that despite Ethiopia having enacted several anti-money laundering laws and ratified numerous international and regional agreements, the anti-money laundering legal norms have strategic deficiencies in abating the threat of

money laundering to the country's economy and security. As explained above, the country's anti-money laundering laws are exclusively concerned with the threat of money laundering emanating from formal financial institutions and certain non-financial businesses and professions. Addressing the threat of money laundering emanating from these businesses and professions is commendable. However, in addressing the threat of money laundering emanating from financial institutions and DNFBPs, the law takes a one-size-fits-all approach.<sup>245</sup> The banking sector's vulnerability differs from that of the insurance sector. Similarly, the threat of money laundering to lawyers is different from the threat of money laundering to precious metals and stones dealers. However, the country's prime anti-money laundering and other subsidiary laws—directives enacted by the FIC, impose similar compliance requirements on the financial institutions and non-financial businesses and professions.<sup>246</sup>

The Ethiopian anti-money laundering legal norms also have strategic deficiencies in addressing the threat of money laundering posed by cash transactions, export and import businesses, cash smuggling, illegal *hawala*, and virtual currencies. Moreover, there are deficiencies in defining money laundering and its ancillary offenses, determining jurisdictions, formulating competent authorities, and proving money laundering cases in court.

*First*, Ethiopia's anti-money laundering legal norms have certain deficiencies in dealing with the threat of money laundering emanating from the cash economy. In the country, there is a huge amount of cash circulating outside of the formal financial system. As of May 2020, a large amount of money estimated to be between 91.5 billion Birr (Gelila, May 23, 2020) and 113 billion Birr (Muluken, May 25, 2020) is circulating out of the

country's formal financial system. This money contributed to the spread of corruption, illicit financial flows, illicit trade practices (contraband), money laundering, and posed a security threat to the country (Hailu, September 24, 2020). Although the cash economy significantly contributed to the prevalence of several illicit activities, until May 2020, Ethiopia has not taken corrective measures.<sup>247</sup> The country's anti-money laundering laws fall short of addressing illegal activities originating from the cash-based economy.

Recently, the Ethiopian Bankers' Association—the consortium of all commercial banks requested that this issue be addressed (Gelila, May 23, 2020; Muluken, May 25, 2020). The Association specifically demanded that the money circulating outside of the formal financial system must be returned to banks. The Association also recommended the government to change the features of currency notes, impose a limitation on cash withdrawal from banks, and limit the maximum cash amount found on hand (Muluken, May 25, 2020). On May 19, 2020, the National Bank of Ethiopia issued a directive limiting cash withdrawals from banks. According to the directive, an individual can only withdraw up to 200,000 Birr a day and 1 million Birr in a month, whereas a company/legal person can withdraw up to 300,000 Birr a day, but not exceeding 2.5 million Birr per month (NBE, 2020, Art. 4(2)). On October 8, 2020, the National Bank amended the directive. As a result, individuals can only withdraw up to 50,000 ETB per day, while legal entities can withdraw up to 75,000 ETB. Under the directive, individuals and juridical persons are also prohibited from holding more than 1.5 million Ethiopian Birr (approximately US\$ 40,000.00) in cash. However, in August 2020, this was reduced to 200,000 ETB.

The directive was enacted to mitigate the growth and spread of financial crimes such as robbery, fraud, money laundering, tax evasion, and other illicit activities (NBE,

2020, p. 1). Equally, the directive is enacted to promote the use of non-cash payment instruments and to ensure the safety and efficiency of the country's payment system. Moreover, to address the problem of cash hoarding, illicit financial flows, and illegal trade activities on September 14, 2020, the government of Ethiopia disclosed that the notes with denominations of 10, 50, and 100 are demonetized, and a new 200-birr note is being introduced. The government provided three months to change the banknotes (NBE, 2020c).

Ideally, the measures taken are important to transform the cash-intensive economy into a cashless economy. It also enables to collect the cash circulating out of the formal financial system. The measures would, eventually enable to reduce illegal activities stemming from the cash economy and cash transactions. However, is the country's financial infrastructure capable of enforcing such measures? Is the banking sector in a position to implement the directives?

Ethiopia's financial sector has grown significantly over the last few decades. As of June 2020, 19 banks, 17 insurance companies, and 35 micro-finance institutions are operating in Ethiopia. The number of financial institutions is expected to grow as a result of changes to banking, insurance, and microfinance business laws. Previously, Ethiopians are only entitled to engage in banking, insurance, and microfinance businesses. However, in 2020, the government of Ethiopia allowed a foreign national of Ethiopian origin to partake in these businesses (FDRE, 2019b, Art. 9; FDRE, 2019c, Art. 4; FDRE, 2019d, Art. 32). As a result, as of July 2020, more than ten banks are under formation (Seble, July 13, 2020).

Even though the financial sector has grown considerably over the last few decades; data collected from the field revealed that the sector would face challenges in implementing

the abovementioned directives.<sup>248</sup> Physical inaccessibility, low-level of awareness—financial illiteracy, lack of financial inclusion,<sup>249</sup> and lack of adequate telecommunications and electricity to support the financial sector are among the challenges. As a result, the measures enable the banks to collect the cash that is circulating outside of the formal financial sector. The reason for this is that individuals brought their banknotes to change it. However, their effect on reducing cash hoarding, illicit trade practices, illicit financial flows, and money laundering remain uncertain.<sup>250</sup> Further, the directive allows financial institutions to approve cash withdrawals in excess of the limit. The sectors to which the exception applied is unclear. To resolve this conundrum, on May 12, 2020, the Ethiopian Bankers Association sent a letter to the central bank, asking for explanations and communal criteria for financial institutions to make exceptions (Gelila, August 01, 2020). The National Bank has fully removed the cash withdrawal limit rule for the Ministry of Defense, the National Intelligence and Security Service, the Agency for Refugee and Returnee Affairs, and the Disaster Prevention and Preparedness Commission (Gelila, August 01, 2020). From the private sector: suppliers, intermediaries, processing plants, and traders of agricultural products, livestock, and minerals are beneficiaries of the exception. Embassies and credit cooperatives are also removed from the cash withdrawal limit rule. Nonetheless, the directive is subject to the discretion of bank personnel, and there is concern that this might open for abuse and corruption.

*Second*, the country's anti-money laundering normative frameworks have deficiencies in governing the threat of money laundering originating from export and import businesses. As mentioned in Chapter 3 of this dissertation, criminals used the country's export and import businesses to launder the proceeds of illicit activities. Criminal

entrepreneurs, in particular, are involved in over/under-invoicing of goods and services, under-shipment of export and import goods, and fictitious trade activities. However, the Ethiopian Customs Commission handles these issues either through administrative or criminal measures.<sup>251</sup> In the under-shipment of import goods, the traders are ordered to import the missing items. In case of under-invoicing, if the difference between the actual customs duties and the amount of customs duties collected after under-invoicing is less than five hundred thousand Ethiopian Birr (approximately \$13,500.00), it is considered as an administrative issue and administrative measures are taken (Ethiopian Customs Commissions, 2008, Art. 5). However, if the difference is greater than five hundred thousand Ethiopian Birr, it is considered as a criminal matter and the case is referred to the police for further investigation. Even within the scope of the administrative measures, a trader can under-invoice goods and services up to four times, beyond this, it is considered as a criminal matter and the case is referred to the police. According to a key informant of this study,<sup>252</sup> the purpose of the law is not to protect the country's export-import trade from abuse by money launderers. It is, however, intended to collect as much tax as possible from the export and import items. Further, the law focuses on under-invoiced import items but not on over-invoiced export and import goods.<sup>253</sup> For instance, when a trader over-invoiced an export item, the Customs Commission collected tax and customs duties from the over-invoiced export item, irrespective of the source of the over-invoiced price.<sup>254</sup>

*Third*, the country's anti-money laundering legal norms have inadequacies in regulating the physical movement of cash. The FATF Special Recommendation 9 on Cash Couriers requires countries to put in place measures to detect the physical cross-border transportation of currency and bearer negotiable instruments, including a declaration

system or other disclosure obligations. Similarly, the Ethiopian anti-money laundering law requires any person who enters or leaves the country in possession of currency, bearer negotiable instruments, to declare to the Ethiopian Customs Commission when so requested (FDRE, 2013, Art. 3(1)). On December 3, 2017, the National Bank of Ethiopia issued a directive that determines the amount of Ethiopian Birr and/or foreign currency a person holds while traveling to and from Ethiopia. The directive states that a person who is entering or departing Ethiopia can only hold a maximum of 1000 Ethiopian Birr per travel to and from Ethiopia (NBE, 2017c, Art. 4(1)). In addition, the directive avows that any person residing in Ethiopia who enters the country from abroad with a foreign currency worth more than \$1000 or equivalent in any other convertible foreign currency must declare it to the Ethiopian Customs Commission. However, if the person is not a resident, the limit exceeds \$3000 or equivalent in any other convertible foreign currency (NBE, 2017c, Art. 4(2)).

The Ethiopian Customs Proclamation No. 859/2014 mentioned the mechanisms of declaration. As a result, a declaration can be made in written form, orally, through conduct/body actions, or electronically (FDRE, 2014, Art. 9(1)). Moreover, the anti-money laundering law explicitly stated that in case of a false disclosure or failure to disclose as required by the law, the Customs Commission has the power to seize part of or the whole amount of currency, bearer negotiable instrument (FDRE, 2013, Art. 3(2)). The laws have been enacted to control the illicit movement of money into or out of Ethiopia. However, the focus of the law and its implementation is on money that outflows from the country.

Notwithstanding its limitations, the law is implemented at Addis Ababa Bole International Airport. The application of the law across inland borders is extremely

limited.<sup>255</sup> The fact that the country has porous borders complicates the controlling mechanism. Once a person declares the currency possessed, there is no checking mechanism whether the person exchanged it in financial institutions or black market. In addition, individuals are required to declare the amount of currency or bearer negotiable instruments they have, but there is a lack of provision for the Customs Commission to request and obtain information about the origin of the currency or bearer negotiable instruments.<sup>256</sup> Similarly, individuals who are either leaving or entering the country are required by law to declare the currency they have, regardless of its source. The money would be earned from criminal activities such as human trafficking, contraband, and corruption. Furthermore, there is a lack of provision for declaring currency or bearer negotiable instruments when it is transported to or from the country via mail or cargo.<sup>257</sup> The law eventually ordered the seizure of falsely disclosed or undeclared currency or bearer negotiable instruments; however, there is a lack of provisions to impose sanctions against the courier.

Similar to the cross-border smuggling of money, the controlling mechanism of the internal movement of cash is inadequate. Individuals can easily move cash from one corridor of the country to another. This has a threefold purpose for criminal entrepreneurs.<sup>258</sup> First, it enables them to transport the proceeds of their illicit activities to the border and then smuggles it to neighboring countries. Second, the inadequate control over the internal movement of money backed by the nature of the country's economy, enables criminals to launder the proceeds of their illicit activities effortlessly. Third, by financing their criminal operations, it paves the way for the commission of further crimes. Simply, it perpetuates a vicious cycle of crime and criminality.

*Fourth*, the threat of money laundering posed by virtual currencies remains unaddressed. The country's anti-money laundering and national payment system legal norms govern fiat money—money that is issued and regulated by a central authority (FDRE, 2011; NBE, 2020a; NBE, 2020b). Virtual currencies could be a target or used as means to commit other criminal activities. Moreover, the crypto-asset service providers would be abused by money launderers.<sup>259</sup> However, the country's legal norms have inadequacies to grasp the mentality of modern paths such as cryptocurrencies. Ethiopia neither enacted a law that allows or prohibits the use of Bitcoin, nor has it conducted a risk assessment of money laundering emanating from virtual assets. The country is in a dilemma—it is in a state of a wait-and-see approach. Meanwhile, however, Bitcoiners are engaged in expanding the business in the country. They inspire Ethiopians to partake in the Bitcoin business either by buying Bitcoin or being engaged in mining. There is thus the need for caveats because Bitcoiners are engaged in the business without a license or in the absence of an established mechanism for licensing and registration of virtual asset service providers.

*Fifth*, the Ethiopian anti-money laundering legal norms have deficiencies in determining jurisdiction to deal with money laundering cases. According to the country's legal norms, the federal government is solely responsible for preventing and combating money laundering. Regional governments (states) do not have an inherent mandate to investigate and prosecute cases of money laundering.<sup>260</sup> States participate in investigating and prosecuting money laundering cases, only, when the federal government delegates them. Hitherto, no delegation has been granted to regional governments.<sup>261</sup> Besides, the previous works done are largely focused on the federal government. The capacity-

building/awareness creation trainings were provided to the FIC, the Office of Federal Attorney General, and the Federal Police Commissions. Further, anti-money laundering institutions were not established in regional states.<sup>262</sup> As a result, regions are not part and parcel of the project. This would make implementing the country's anti-money laundering laws challenging. Even when the federal government grants a delegation, its implementation would be difficult. The Ethiopian anti-money laundering law provides the mandate of adjudicating money laundering cases at a first instance jurisdiction to the Federal High Court. According to the FDRE Constitution, the delegation of the Federal High Court goes directly to the State Supreme Court (FDRE, 1995, Art. 78). Money laundering cases started when the predicate offense is punishable by rigorous imprisonment for one year or above. So, giving the adjudication mandate of one-year imprisonment to the States Supreme Court is not compatible with other jurisdictions of the State Supreme Court. Furthermore, this is against the rights of the accused person to get a fair trial including the right to appeal or accessibility of the justice system.

*Sixth*, the country's anti-money laundering legal norms have deficiencies in determining competent authorities. In 2013, during the enactment period of the anti-money laundering law, the Federal Ethics and Anti-Corruption Commission, the Ethiopian Customs Commission, and the Ethiopian Trade Competition and Consumers' Protection Authority had the authority to investigate and prosecute cases under their respective mandate. However, in 2016, the Ethiopian Federal Attorney General Establishment Proclamation No. 943 takes away the prosecution power of these institutions (FDRE, 2016c). When the office of Federal Attorney General takes away their prosecution authority, they cede their investigation authority to the police, the Federal Police

Commission. As a result, the three institutions mentioned above have neither an investigation nor a prosecution mandate—they are not competent authorities. In addition, the law failed to provide a comprehensive list of competent authorities and regulatory institutions. Some institutions argued that “the anti-money laundering law did not clearly recognize us as competent authorities or regulatory bodies, so we could not take the anti-money laundering obligations through interpretation”.<sup>263</sup> This type of institutional complaint emerged due to the legal lacuna but it has a chilling effect on the success of anti-money laundering efforts.

Furthermore, the law creates an overlapping mandate between competent authorities and regulatory institutions (FDRE, 2013, Art. 2 (22)). For instance, both the FIC and the National Bank of Ethiopia are mandated to supervise financial institutions. The FIC and the regulatory authorities of certain non-financial businesses and professions are also mandated to conduct anti-money laundering compliance supervisions. Besides, the FIC and the police have the authority to investigate cases of money laundering and associated offenses. This overlapping of mandates results in both negative and positive conflicts of jurisdiction.<sup>264</sup> On the negative side, both organs leave the case with the intent that the other will handle it. In a nutshell, cases of money laundering would be left unresolved because no one was concerned. In a positive sense, two or more competent authorities are competing to handle a single case. This overlapping of mandate results in duplication of tasks and resources.

*Seventh*, the Ethiopian anti-money laundering legal norms have deficiencies in shifting the burden of proof to the defendant when the prosecutor established a prima facie case. In other laws of the country such as corruption crimes (FDRE, 2015a, Art. 21), human

trafficking and smuggling of persons (FDRE, 2020b, Art. 21(2)), and other illicit enrichment crimes, the burden of proof is shifted to the accused person after the prosecutor has established a prima facie case. The accused person is expected to explain the sources of his/her wealth, when the prosecutor proves the fundamental facts of the case for the crime stipulated in the specific laws. However, such provisions were not included in Ethiopia's anti-money laundering legislation. Usually, money laundering is committed clandestinely. Unless the burden of proof is shifted to the accused person in some instances, convicting individuals suspected of money laundering and proving money laundering cases to the standard of beyond reasonable doubt become a daunting task.<sup>265</sup> The unique nature of money laundering, such as it is committed surreptitiously and is a victimless crime, complicates the prosecution process. Criminals take advantage of this legal gap to further their goals.<sup>266</sup> In other words, because the law does not allow the court to shift the burden of proof to the person who possessed unexplained property, convicting and punishing criminals for money laundering and confiscating the proceeds and/or instrumentalities of crime becomes a difficult task.

*Eighth*, under the Ethiopian legal system, there is a lack of a comprehensive, sustained, and concerted policy or strategy to identify and recover illicit assets as a priority, as well as to ensure alignment of objectives, tools, and resources to this end. There have been sporadic provisions in the Criminal Code and Criminal Procedure Code, Revised Anti-Corruption Special Procedure Proclamation No. 434/2005 (amended by Proclamation No. 882/2015), Revised Anti-Corruption Commission Establishment Proclamation No. 433/3005 (amended by Proclamation No. 883/2015), Corruption Crimes Proclamation No. 881/2015, Ethiopian anti-money laundering law-proclamation No. 780/2013. These laws

have scattered provisions on illicit assets recovery. However, the issue of illicit assets recovery and administration is not comprehensively regulated. This is creating a problem not only in tracing, identifying, and seizing the proceeds of crime but also in administering when the property is seized.

*Ninth*, there is a lack of specific laws governing mutual legal assistance and extradition. Issues such as coordinated seizure and confiscation actions with other countries, the management of property frozen or seized at the request of another country, and the use of investigative powers to conduct inquiries and to obtain information on behalf of foreign police outside of mutual legal assistance are not adequately addressed.<sup>267</sup> Furthermore, there are inadequacies in governing the formation of a joint investigative team, and indirect exchange of information between financial supervisors, and dual criminality.<sup>268</sup> The FIC prepared a draft Directive on International Cooperation in 2011, but it has yet to be approved.

## **6.5. Chapter Summary**

In this chapter, the researcher examines the normative framework of Ethiopia's anti-money laundering regime. The researcher primarily explores the historical development of the country's anti-money laundering legal norms. Accordingly, since 2004, the government of Ethiopia has enacted several domestic laws and ratified numerous international and regional instruments that deal with money laundering and associated predicate offenses. Domestically, two proclamations (No. 657 and 780), one regulation (No. 171), three directives (NBE CDD Directive of 2010, FIC Directives to be applied by all the financial institutions and DNFBPs), a National Anti-money Laundering and Combating the Financing of Terrorism Policy, a standard operating procedure for financial intelligence

analysis, and a guideline for suspicious transaction report were enacted. The country has ratified the Vienna Convention, the Palermo Convention with its three supplementary Protocols, the UN Convention on Corruption, the AU Convention Against Corruption, and the IGAD Conventions on Extradition, and Mutual Legal Assurances.

In analyzing the historical development of the country's anti-money laundering legal norms, this research finds that the legal norms are evolved primarily as a result of external pressure not voluntary compliance to international norms. The FATF's International Committee Review Group (ICRG) process was critical in the development of the country's anti-money laundering legal norms. This enables the country's anti-money laundering legal norms to comply with international anti-money laundering standards, specifically with the FATF 40 recommendations. However, several attempts have been made to socialize the legal norms through discussions on the draft bills, conferences, workshops, and trainings.

The researcher also examines the pillars of Ethiopia's anti-money laundering legal norms. Ethiopia's anti-money laundering legal norms follow a twin-track approach—prevention and repression. The prevention approach aims to prevent money laundering by imposing identification and reporting requirements on financial institutions as well as certain non-financial businesses and professions. This strategy aims to deter criminals from laundering by raising the costs of such illegal operations. The prevention approach includes: undertaking adequate KYC/CDD measures, maintaining internal control and risk management system, keeping copies of all records obtained through CDD measures, and reporting suspicious transactions, cash transactions, wire transfers, or cross-border transactions of cash and bearer negotiable instruments. The elements of the prevention

approach incorporated into the Ethiopian anti-money laundering legal norms are largely consistent with FATF recommendations and Basel's Customer Due Diligence. On the other hand, the repressive approach aims to punish money launderers by using criminal law and freezing, seizing, and confiscating the proceeds or instrumentalities of illicit activities.

Lastly, this study finds that despite the country has been enacted and ratified several anti-money laundering legal norms, the legal norms have strategic deficiencies. The anti-money laundering legal norms have inadequacies in addressing the risk factors that contributed to the growth of money laundering. Specifically, the legal norms did not address the threat of money laundering emanated from cash transactions, export and import businesses, cash smuggling, illegal *hawala*, financial technologies, and virtual currencies. There are also deficiencies in the definition of money laundering and its ancillary offenses, determining jurisdictions (among the competent authorities or between the federal and regional governments), formulating competent authorities, and proving money laundering cases before a court of law. Moreover, the country's anti-money laundering legal norms have deficiencies in the areas of illicit asset recovery and administration, as well as mutual legal assistance and extradition.

# **CHAPTER SEVEN**

## **ETHIOPIA'S ANTI-MONEY LAUNDERING**

### **INSTITUTIONAL OPERATIONS**

#### **Introduction**

Over the last decade and a half (2004-2019), Ethiopia has made substantial progress in setting anti-money laundering normative frameworks. To enforce the country's anti-money laundering legal norms, the government of Ethiopia has either established new institutions or expanded the mandate of formerly established institutions. Ethiopia has also joined several international and regional organizations aimed at preventing and combating money laundering and associated predicated offenses.

Thus, this chapter examines the Ethiopian anti-money laundering institutional operations. It looked at how the country's anti-money laundering institutions prevent and suppress money laundering. Anti-money laundering operations to be successful require inter-agency coordination. In the age of economic globalization, money laundering is also becoming transnational and borderless. Combating money laundering necessitates well-coordinated national and international responses. Therefore, in this chapter, both domestic and international coordination are comprehensively explored.

#### **7.1. How do Ethiopia's Anti-money Laundering Institutions Operate?**

Ethiopian anti-money laundering institutions are divided into three categories based on their role and engagement: reporting entities, competent authorities, and regulatory bodies. Institutions that are indebted to comply with money laundering prevention measures such

as pursuing a risk-based approach, undertaking KYC/CDD, reporting suspicious transactions, and maintaining records are referred to as reporting entities. This category includes financial institutions, as well as certain non-financial businesses and professions. Competent authorities include institutions that gather financial intelligence, analyze the results of the intelligence, investigate and prosecute money laundering culprits, and seize and freeze the proceeds or instrumentalities of crime. Regulatory authorities are organizations that issue licenses and monitor reporting entities to ensure that they are adhering to anti-money laundering legislation. Since 2013, in accordance with international best practices a National Anti-money Laundering and Counter the Financing of Terrorism Inter-agency Committee consisting of reporting entities, competent authorities, and regulatory bodies have been in place.

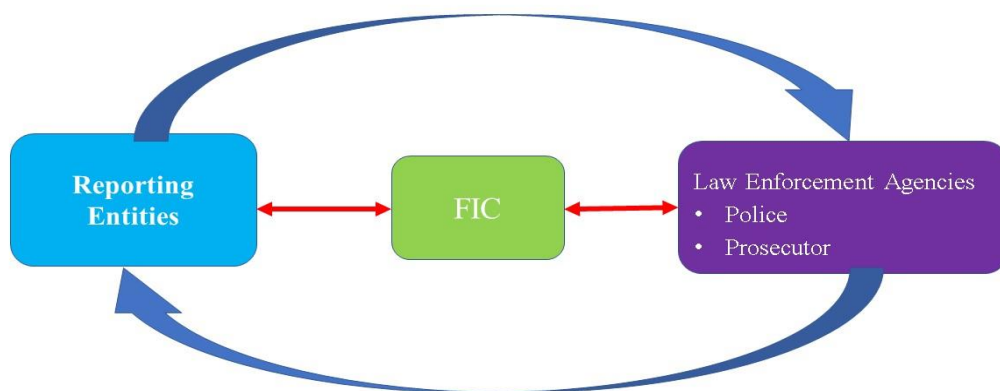
The Ethiopian anti-money laundering system usually commences its operation by protecting the reporting entities from abusing by money launderers. Money laundering preventive measures such as pursuing a risk-based approach, undertaking KYC/CDD, reporting STR and CTR, and maintaining internal control and risk management systems are being implemented by reporting entities, notably banks. The regulatory authorities, specifically the National Bank and the FIC, supervise the compliance of reporting entities with the country's anti-money laundering legal norms.

The reporting entities report suspicious and cash transactions report to the FIC. Following the receipt of the reports, the FIC conducts a financial intelligence analysis. When the FIC suspects the commission of money laundering or associated predicate offenses, the case is referred to the investigative authorities for further criminal investigation. The criminal investigation is usually carried out by the Federal Police

Commission and the Office of Federal Attorney General (prosecution office). The investigation is conducted in two ways: the predicate offenses are investigated, and the proceeds or instrumentalities of crime are identified, frozen, and seized. This strategy is commonly known as conducting a parallel investigation. Once the investigation is finalized, the case is referred to the prosecutor. The prosecutor then files a charge against the perpetrators.

Between 2012 and 2016, the FIC received 2,700 suspicious transaction reports from banks, of which 316 were disseminated to law enforcement organs such as the Federal Police Commission Bureau of Investigation, Federal Ethics and Anti-Corruption Commission, and National Intelligence and Security Service for further investigation (FDRE, 2016b, p. 43). 54 cases have been prosecuted, 14 of which have resulted in convictions while the remaining cases are still pending.

Figure 5: The flow of financial intelligence in Ethiopia



Developed by the researcher (May 2020)

This picture depicted, how the financial intelligence flows and the Ethiopian anti-money laundering system operates. The following sub-sections examined: the role, achievements, shortfalls, and challenges of the country's anti-money laundering institutions.

#### **7.1.1. National Anti-money Laundering and Countering the Financing of Terrorism Committee**

The government of Ethiopia has formed a National Committee to coordinate national anti-money laundering activities and to enable close cooperation and information sharing, both of which are necessary for an efficient anti-money laundering system (FDRE, 2019a). The National Committee was first constituted in 2013, in response to Ethiopia's inclusion on the FATF's list of countries with strategic anti-money laundering deficiencies. The Committee included high-level representatives from the Ministry of Finance and Economic Cooperation, Prime Minister's Office, Office of Federal Attorney General, FIC, and National Bank of Ethiopia. The National Committee also included representatives from the Ministry of Foreign Affairs, Charities and Societies Agency, Federal Police Commission, Ministry of Revenue, Ethiopian Customs Commission, Federal Ethics and Anti-Corruption Commission, and Ministry of Trade and Industry. The Committee was chaired by the Minister of Finance and Economic Development, and the Committee's secretariat was the Director-General of the FIC. The committee was streamlined in April 2019 following a shift in the country's political leadership. The Minister of Peace becomes the Committee's chairperson, while the FIC's Director-General remains the Committee's secretariat (FDRE, 2019a, p. 8).

The country's anti-money laundering legal norms are beginning to be applied to new reporting entities such as dealers of precious stones and metals, accountants and

auditors, and real estate brokers. As a result, new institutions that have a supervisory role on the reporting entities have been added to the National Committee, including the Ministry of Mines and Energy, Ministry of Urban Development and Construction, Ministry of Transport, and Ethiopian Accountants and Auditors Board (APA News, May 30, 2019; FDRE, 2019a). From these ministerial offices and other institutions represented in the National Committee, a technical committee was formed. This committee acts as the National Committee's technical expert. In 2019, the technical committee was also streamlined.

In sum, all institutions with a stake in the prevention and suppression of money laundering and its predicate offenses are represented in the National Committee. Such approach is known as a whole government approach. All government and private bodies involved in the prevention, supervision, investigation, and prosecution of money laundering and its associated offenses, as well as freezing and seizing the proceeds or instrumentalities of crime, all are included.<sup>269</sup> The Ethiopian anti-money laundering system adopts the whole government approach, based on the logic that the causes of money laundering and its predicate offenses, as well as their solutions, are complex and multifaceted, necessitating a coordinated effort from many government agencies, financial institutions, and non-financial businesses and professions.<sup>270</sup>

The National Committee is the country's key policy-setting body on money laundering and its countermeasures. The Committee was specifically tasked with developing anti-money laundering normative frameworks, promoting the coordination of anti-money laundering institutions, and advising the Ethiopian government on money laundering and its countermeasures.

The Committee undertook significant tasks such as developing the country's anti-money laundering normative frameworks and conducting a national risk assessment of money laundering and terrorist financing.<sup>271</sup> The Committee launched the process of reviewing the 2004 and 2009 anti-money laundering legislations, which resulted in the adoption of Proclamation No. 780/2013 and the issuance of FIC's Directives No. 01/2014 and No. 02/2016, respectively for financial institutions and DNFBPs.<sup>272</sup> In addition, the Committee follows up the development of the Ethiopian National Anti-Money Laundering and Combating the Financing of Terrorism Policy, which was endorsed in April 2019.

In 2013, the National Committee began conducting a national risk assessment, that was finalized in 2016.<sup>273</sup> Conducting the national risk assessment is one of the applaudable achievements of the government of Ethiopia, notably the National Committee. This enables different parties involved in the prevention and suppression of money laundering to have a common understanding of the threats that money laundering poses to the country's economy and security. Moreover, it would enable the government to prioritize its resource allocation and develop decisive counterstrategies.

Apart from the National Committee, a proposal for the establishment of a National Forum was developed and submitted to the Minister of Peace in 2019.<sup>274</sup> This Forum intends to bring together the federal and regional state governments. The National Forum will have an important role in bringing the regional states to the anti-money laundering platforms. The Forum will also contribute to creating a common understanding among the federal and regional governments about the menace of money laundering to the country's financial stability and security.<sup>275</sup> It will eventually improve the collaboration and coordination of the regional and federal governments in the prevention and suppression of

money laundering and associated predicate offenses.<sup>276</sup> This forum has yet to be established, and the regional governments remain on the periphery of anti-money laundering initiatives.

### **7.1.2. Reporting Entities**

Reporting institutions are highly susceptible to money laundering and other criminal activities. Thus, protecting the reporting entities from money launderers is critical to the success of anti-money laundering efforts. The reporting entities encompass financial institutions such as banks, microfinance, saving institutions, money transfer agents, and insurance companies. The reporting entities also include accountants and auditors, lawyers, real estate agents and brokers, precious stone and metal dealers, and other professional classes of launderers.

As discussed in Chapter 6, the Ethiopian anti-money laundering law required reporting entities to assess and identify the risk of money laundering and related predicate offenses, follow a risk-based approach, undertake adequate KYC/CDD, report different types of reports such as STR, CTR, wire transfer, and cross border transactions of cash and bearer negotiable instruments, and keep copies of all records obtained through CDD measures. These money laundering prevention measures are implemented differently by financial institutions and DNFBPs. Hence, in this sub-section, the study examined the compliance of financial institutions and non-financial businesses and professions to the country's anti-money laundering legal norms.

### ***Financial Institutions***

Ethiopia's financial institutions whether wittingly or unwittingly have been involved in laundering illicit proceeds. To protect this sector from money launderers, financial institutions are indebted to comply with the country's anti-money laundering laws, specifically with the regime of reporting and regulation.

In the country, there are 19 commercial banks (17 private and 2 state-owned). Except the Development Bank of Ethiopia, which is the government's development arm, all banks in Ethiopia offer traditional banking services to their customers (FDRE, 2016b). The country's Development Bank provides finance for selected projects in accordance with the country's development policy. There are no investment, mortgage, or other specialty banks.<sup>277</sup>

Since March 2011, the banking sector has implemented money laundering prevention packages (FDRE, 2016b). This sector is in a better position to put in place money laundering preventive measures. Some of the banking sector's notable accomplishments include establishing an independent compliance function/department, approving bank-specific anti-money laundering policy, undertaking KYC/CDD, reporting CTR, STR, and wire transfers, and providing anti-money laundering trainings.<sup>278</sup>

Each commercial bank has established a risk and compliance unit at a senior management level.<sup>279</sup> This unit is in charge of ensuring that the respective bank is effectively implementing the national anti-money laundering statutes. This department reports directly to the board of directors or the bank's president (FDRE, 2016b, p. 89). This would enable the compliance head to assist the bank's board of directors and senior management in effectively managing the bank's compliance risk.

Every bank has an anti-money laundering compliance policy.<sup>280</sup> This policy provides for the power of the compliance function including its right to access information, investigate possible breaches, and fully disclose its findings to the board of directors or committee of the board or the bank's president.<sup>281</sup>

All banks implement a risk-based approach by classifying their customers and transactions based on risks from anti-money laundering perspective.<sup>282</sup> In opening a new bank account, banks apply the principle of customer identification. Banks are also reporting suspicious transactions report (STR) daily and cash transactions report (CTR) weekly.<sup>283</sup> Between 2012 and 2016, the banking sector reported 2700 cases of STR. Moreover, between 2012 and 2014, the sector reported 2,092,445 cases of CTR (FDRE, 2016b, P. 11).

All banks have provided anti-money laundering trainings to their management and Employees.<sup>284</sup> This improves the bank's capacity to implement money laundering prevention measures. Moreover, all banks keep records of customer transactions and documents indefinitely. The customer transactions and records are readily accessible when required by law enforcement agencies.<sup>285</sup>

Despite the aforementioned applaudable achievements, the banking sector has certain inadequacies. This study finds that most banks focus on their core banking businesses such as increasing the number of their customers and saving accounts, as well as raising their foreign currency reserves.<sup>286</sup> They did not pay much attention to their anti-money laundering responsibilities. The sector is reporting large amounts of STRs to the FIC, however, the STRs largely concentrate on a few predicate offenses of money laundering such as illegal *hawala*, people trafficking and smuggling, tax evasion, and illegal money exchange services (FDRE, 2016b; World Bank-ESAAMLG, 2015). Some

banks even did not thoughtfully work based on anti-money laundering regulations. For instance, banks open a new bank account without conducting proper customer identification.<sup>287</sup> Occasionally, some banks may face a conflict of interest between maintaining the secrecy of their customers and adhering to the country's anti-money laundering regulations. They consider reporting as a deleterious activity.<sup>288</sup> This would enhance the vulnerability of the banking sector to nefarious activities such as money laundering.

Even though all banks have a compliance officer, they are not well equipped.<sup>289</sup> In addition to their compliance obligations, the officer is also the Head of the Risk Management Department/Process.<sup>290</sup> Except the Commercial Bank of Ethiopia—the country's largest bank, all of the remaining banks have one or two compliance officers, which makes it difficult to assure effective compliance across the bank.

Bank frontline officers who interact with customers must have the necessary knowledge, skills, and competencies to detect any risk of money laundering and associated predicate offenses. However, when compared to the total number of employees, the banking sector has a low coverage of anti-money laundering trainings.<sup>291</sup> Members of the Board of Directors and employees in key operations such as international business, internal audit, and credit departments are lacking adequate knowledge and skills of detecting and reporting suspicious transactions (FDRE, 2016b).

Maintaining a robust information technology system is crucial for the effective implementation of the country's anti-money laundering regime. It eased the banking sector's anti-money laundering efforts. Specifically, it enables the banking sector to conduct digital customer identification, identify and report cash and dubious transactions.

Even though there are some encouraging developments, all banks did not automate the whole anti-money laundering process.<sup>292</sup>

As of June 2020, the country has 17 insurance companies, 16 of which are private and one of which is state-owned. In comparison to the banking sector, the insurance sector is less vulnerable to money laundering. All the insurance companies are owned by Ethiopian nationals as foreign nationals are prohibited by law from owning insurance company's shares (this was applicable until the end of 2019). The volume of transactions conducted by the insurance sector is insignificant and it is mostly limited to domestic transactions (FDRE, 2016b).

The FIC and the insurance sector are working together to undertake money laundering prevention measures.<sup>293</sup> Few insurance companies have conducted sector-specific money laundering risk assessments, enacted anti-money laundering policy that has been endorsed by their Board of Directors, and established anti-money laundering compliance unit.<sup>294</sup> The insurance sector has also a very low anti-money laundering training coverage.

Micro-finance institutions, saving and credit cooperatives, and money transfer agents are also indebted to undertake money laundering prevention measures. In the country, as of June 2020, there are 35 micro-finance institutions, 125 saving and credit cooperatives, and 25 money transfer agents. This study finds that the vulnerability of these sectors to money laundering is low. This is due to either a low rate of transactions or the services provided are limited to local customers with no significant cross-border transactions.<sup>295</sup> However, due to their involvement in international transactions, money transfer agents are more susceptible to money laundering. Micro-finance institutions and

money transfer agents are begun undertaking KYC and report STR and CTR. To get any service a customer must be physically present and should show a valid *Kebele* ID. However, the saving and credit cooperatives have yet to begin implementing money laundering prevention measures. Further, those financial sectors have low-level anti-money laundering training coverage and weak compliance function.

In sum, from the financial institutions, banks are in a better position in discharging their anti-money laundering obligations. The FIC is doing certain activities to broaden the implementation of money laundering prevention measures to the insurance sector, micro-finance, and money transfer agents. These sectors are also starting to undertake money laundering prevention measures, specifically identifying their customers and reporting STR. However, the country's anti-money laundering legal norms follow the same size fits all approach. The vulnerability of the insurance sector differs from that of the banking sector or the vulnerability of money transfer agents is different from the micro-finance institutions.<sup>296</sup> Nevertheless, all the financial institutions are indebted to undertake similar money laundering prevention measures. In return, this is becoming a colossal challenge for the financial institutions, specifically the insurance sector to comply with money laundering prevention measures.

### ***Non-Financial Businesses and Professions***

Non-financial businesses and professions are commonly known as professional class of launderers. These entities are engaged in either brokering or dealing with the businesses of their clients. There is a concern that they would be abused by their clients and engaged in laundering their client's criminal proceeds. Therefore, as with financial institutions, the law requires them to undertake money laundering prevention measures. In other words, these

institutions have a critical role in preventing and detecting money laundering and associated predicate offenses through undertaking KYC/CDD, and reporting suspicious and cash transactions.

Non-financial businesses and professions designated by the Ethiopian anti-money laundering law as reporting entities comprise dealers in precious metals and stones, accountants & auditors, real estate agents, lawyers, and notaries (FDRE, 2013, Art. 2(10)).

Dealers of precious metals and stones would be vulnerable to money laundering and associated predicate offenses. They may provide falsified documents that under/over-invoicing the price, and over/understated the quantities of the precious metal or stone.<sup>297</sup> Unlicensed dealers transact through licensed dealers. Any person, Ethiopian or foreigner, can buy jewelry from jewelry shops without any registration and identification.<sup>298</sup> This could imply that illicitly generated money is being used to purchase gold and other minerals. Dealers in precious stones and metals have the responsibility to identify their customers, conduct CDD, and report suspicious transactions to the FIC. However, the implementation of these obligations is at its beginning and no dealer has yet filed a STR.<sup>299</sup>

In Ethiopia, there are more than 966 authorized accountants and auditors (Accounting & Auditing Board of Ethiopia, n.d). The services that should be rendered by authorized auditors and accountants include advisory services in the areas of business establishment, taxation, overall financial management, and liquidation of entities. However, the data from the Federal Police Commission, Bureau of Crime Investigation revealed that there are prosecutions against auditors and accountants. The charges accuse auditors and accountants of engaging in criminal activities such as corruption and tax evasion practices.<sup>300</sup> There are also cases where the professionals are accused of being

involved in preparing forged receipts, credit, and other financial documents.<sup>301</sup> Some accountants have also been charged with preparing fictitious financial statements. The professionals are induced by the substantial amount of money they acquire through malpractice. Then, they used the illicit money to purchase real estate or deposit the cash in the name of family members and other third parties.<sup>302</sup> However, no authorized accountant or auditor has begun to comply with their anti-money laundering law responsibilities.

Transaction in real estate is undertaken both in cash and through banks. Cash base transactions create favorable conditions for tax evasion by undervaluing the sales contract and placing illicitly generated funds on the real estate.<sup>303</sup> In addition, the source of cash from the buyers' side and the actual cash collected by real estate developers could not be traced under cash-based transactions. There is weak compliance by real estate agents, brokers, and developers. The sector has yet to implement preventive measures such as KYC/CDD.<sup>304</sup> As a result, criminals can easily launder money by purchasing homes in his or her name or the names of family members.

In Ethiopia, there are no private notaries. Notary services are provided by both the federal and regional governments. The government has established a Documents Authentication and Registration Office to provide notary services (FDRE, 2015b). As a result, the vulnerability of the notaries to money laundering and associated predicate offenses is extremely low, and the office has yet to begin implementing money laundering prevention measures.

The involvement of lawyers and law offices/firms in the provision of services such as buying and selling of property or business entities on behalf of their client, managing client's money, managing investments and other assets including bank account, financial

securities, organizing contributions for the creation, operation, or management of companies on behalf of their client; or creating others similar arrangements are nonexistent or minimal (FDRE, 2013, Art. 2(10(c))). This study finds that lawyers and law firms do not provide most of the services that could be used as an instrument to hide or legitimize ill-gotten funds. As a result, the vulnerability of lawyers to money laundering is low. However, lawyers/law firms are not discharging their anti-money laundering obligations and do not comply with the country's money laundering prevention measures.<sup>305</sup> Even though the Ethiopian anti-money laundering law outlawed professional privilege, there are indications that lawyers are becoming hesitant to carry out money laundering prevention measures under the guise of professional privilege, a lawyer-client relationship.<sup>306</sup>

In this study, besides the abovementioned non-financial businesses and professions; car dealers and casinos are identified as non-financial businesses that are susceptible to the threat of money laundering. In Ethiopia, the business of casinos is owned and highly regulated by the government. However, the data collected uncovered that criminals would buy a lottery ticket from a winner to legitimize illicitly generated funds.<sup>307</sup>

Vehicles sales have risen considerably during the last decade. However, participants of this study noted that illicitly generated funds are utilized to purchase vehicles. For example, 23 and 33 cars are confiscated, respectively in 2012/2013 and 2013/14–2015/16 due to corruption allegations (FDRE, 2016b, p. 128). The Financial Crime Investigation Directorate of the Federal Police Commission seized more than 40 cars purchased with illegal money (FDRE, 2016b, p. 128). In addition, vehicle dealers evade taxes by hiding/reducing the actual sales price received from customers, or by undervaluing the price on the contract<sup>308</sup> Casino service providers and vehicle dealers are

not designated as reporting entities in the country's anti-money laundering law. As a result, these non-financial businesses are not subject to KYC/CDD requirements and reporting of suspicious transactions. This increases the vulnerability of those sectors to money laundering.

In sum, under the Ethiopian anti-money laundering legal norms, certain non-financial businesses and professions are designated as reporting entities. These entities are indebted to protect themselves from abuse by money launderers and are obliged to report suspicious activities of money laundering and its predicate offenses. However, these businesses and professions have different money laundering vulnerabilities. The vulnerability of lawyers may differ from that of accountants or precious metals or stone traders.<sup>309</sup> Although non-financial businesses and professions have different money laundering vulnerabilities, the directive enacted to govern anti-money laundering obligations of this sector, imposed similar obligations—applying the principle of a one-size-fits-all approach. This is creating difficulties in the compliance of non-financial businesses and professions to the country's anti-money laundering legal norms.

### **7.1.3. Regulatory Authorities**

Regulatory authorities encompass institutions that provide a license to the reporting institutions, supervise them, and take corrective measures if there is a violation of laws. These authorities play an important role in ensuring the compliance of reporting entities with the anti-money laundering legal norms.

Ethiopia's regulatory authorities include the National Bank of Ethiopia for financial institutions, Ethiopian Accountants and Auditors Board for accountants, the Office of Federal Attorney General for lawyers, Ministry of Mines and Energy, and Ministry of

Trade for dealers in precious metals and stone, and Ministry of Construction for real estate dealers (FDRE, 2013, Art. 2(30)).

The FIC carried out various tasks to ensure that financial institutions, as well as certain non-financial businesses and professions, comply with the country's anti-money laundering laws. It conducts regular discussions with the President/Chief of Executives of banks and insurance companies, undertakes anti-money laundering inspection on all banks, insurance companies, micro-finance institutions, and money transfer agents, and takes adequate measures to raise the awareness of the reporting entities regarding their anti-money laundering obligations.<sup>310</sup>

In 2010, the National Bank of Ethiopia began conducting anti-money laundering compliance supervision. The National Bank conducts robust fit and proper test of influential shareholders (above 2%) and board of directors and it requires disclosure of the source of funds for investment in banks before licensing a new bank. The National Bank checked their experience/knowledge, integrity, and financial soundness. This is to prevent criminals from holding a significant management position or share within the financial institutions.<sup>311</sup>

The National Bank requires international remittance companies to maintain a standard anti-money laundering system as a mandatory requirement to work with commercial banks operating in Ethiopia. The National Bank also requires the commercial banks operating in Ethiopia to adequately assess the vulnerabilities of new products and services to money laundering and stipulate mitigation measures before approving the launching of the new product/service developed by the banks.<sup>312</sup> Besides, the National Bank of Ethiopia conducts periodic onsite and offsite risk-based supervision on micro-

finance institutions.<sup>313</sup> However, the National Bank did not carry out sufficient anti-money laundering supervision on the insurance sector.<sup>314</sup>

The FIC and the National Bank of Ethiopia have begun conducting joint supervision.<sup>315</sup> According to the informants of this study, the joint supervision has identified a large number of STR that banks failed to send to the Center.<sup>316</sup> It also enables employees of the FIC, the reporting entities, and the National Bank to work together and to share their experiences. Furthermore, by creating a common understanding of the threat of money laundering to the financial sector, it resolves some of the role conflicts between the National Bank and the FIC. Previously, the National Bank conducted only prudential supervision. However, following the introduction of anti-money laundering regulations, the Bank conducts both prudential and risk-based supervisions.<sup>317</sup> This new approach enables the National Bank to identify financial institutions that have deficiencies in discharging their anti-money laundering obligations, warn these institutions, and take corrective measures on employees and managers.

Supervision has a determinantal role in ensuring the compliance of reporting entities to the country's anti-money laundering legal norms. It is, however, in its early stages of development and has deficiencies. During their inspection, the FIC or the National Bank identified anti-money laundering gaps, but the sanctions they levied are oral and written warnings against some banks.<sup>318</sup> There have been no significant anti-money laundering sanctions imposed on any of the banks. The regulatory authorities of non-financial businesses and professions did not start conducting supervision that intends to ensure the compliance of the reporting entities to the country's anti-money laundering regulations.<sup>319</sup> The regulatory authorities lack trained and skilled human power capable of

conducting in-depth risk-based supervision.<sup>320</sup> The FIC is the only government agency with the necessary expertise to carry out in-depth anti-money laundering supervision. Conversely, this has a detrimental effect on the effectiveness of the FIC in its core functions.

#### **7.1.4. Competent Authorities**

In the anti-money laundering regime, competent authorities encompass institutions engaged in analyzing and investigating money laundering cases, freezing and seizing the proceeds or instrumentalities of crime. The Ethiopian anti-money laundering law provides a list of competent authorities. According to the law, “competent authority means the Center [the Financial Intelligence Center], National Intelligence and Security Service, the police, prosecutor, the Ethiopian Revenue and Customs Authority (now the Ethiopian Customs Commission), other investigative body, or any concerned regulatory authority” (FDRE, 2013, Art. 2 (22)).

The competent authorities have to prioritize anti-money laundering issues and embrace their role both in terms of Proclamation No. 780/2013 and other subsidiary laws as well as international anti-money laundering standards. In practice, these institutions are in charge of gathering financial intelligence, conducting analysis, investigating, prosecuting money laundering cases, as well as recovering the proceeds or instrumentalities of illicit activities.

## *The Financial Intelligence Center*

### **1. The Mandate and Structure of the Center**

FATF recommends (Recommendation No. 26) countries to establish a Financial Intelligence Unit that serves as a national center for the receipt and analysis of suspicious transaction reports; cash transaction reports; wire transfer reports; and other information relevant to money laundering, associated predicate offenses and terrorist financing, and for the dissemination of the results of that analysis (FATF, 2012-2019). In 2009, the Council of Ministers of the FDRE adopted Regulation No. 171 that established the FIC as a central authority for anti-money laundering and countering the financing of terrorism. Even though the FIC was legally established in 2009, it became fully operational in 2012. On several occasions, the FATF in its public statement proclaimed that Ethiopia has deficiencies in “ensuring a fully operational and effectively functioning Financial Intelligence Unit” (FATF, 2012a; FATF, 2011a; FATF, 2011b). This has an impact on the functionality of the FIC. The Ethiopian government to meet the international standard has established the Center. The Center was fully operational due to political pressure from the FATF and the desire of Ethiopia to enhance its reputation as a reliable and growing market for investment.<sup>321</sup>

According to the Ethiopian anti-money laundering law, the FIC<sup>322</sup> is an independent authority mandated to collect, store, receive a survey, analyze, and disseminate information about suspected money laundering cases and conduct public awareness programs about money laundering (FDRE, 2013, Art. 13; FDRE, 2009, Art. 5). The law authorized the FIC to conduct research about typologies<sup>323</sup> of money laundering and indicate solutions to the relevant bodies. The FIC is also authorized to conduct an on-site inspection on financial

institutions and DNFBPs to ensure compliance with the anti-money laundering laws, and coordinate and follow up the actions of other government institutions entrusted with combating money laundering. The law obliged the FIC to maintain comprehensive statistics about the number of STR and CTR received, the number of referrals, the number of criminal investigations and prosecutions based on those referrals, and the number of international requests for mutual legal assistance. In a nutshell, the FIC is the leading organ of Ethiopia in the prevention and suppression of money laundering and associated predicate offenses.

Arguably, the Ethiopian FIC was established as an administrative type of financial intelligence unit. Except ordering the freezing of illicit proceeds or instrumentalities of crime for three days, the FIC did not have any law enforcement or judicial mandate (FDRE, 2013, Art. 19(3)).

Since its establishment, the Center has registered applaudable achievements. It has enacted compliance directives for financial institutions and non-financial businesses and professions, undertaken financial intelligence analysis and anti-money laundering compliance supervision, conducted typology studies, provided broad-based capacity building/awareness-raising trainings, and increased the number and capabilities of its employees.<sup>324</sup>

Following the change of government leadership and as part of the reforms Ethiopia is conducting, the FIC has been re-structured in 2019.<sup>325</sup> According to the new structure, the FIC is headed by Director-General and Deputy Director-General. It has also six directorates: Financial Transactions Examination and Analysis; Law, Policy and International Relations; Information Technology; Communication; Audit; and Human

Resource Administration and Finance. As of January 2020, the FIC is operating at full capacity staffed with 54 core personnel and 86 auxiliary staff.<sup>326</sup> This is significant progress, not only in terms of filling the vacant positions but also the expertise and skills of the employees are enhanced through a series capacity building trainings, practice, and experience sharing programs in different countries of Africa, Asia, and Europe.

The Financial Transactions Examination and Analysis Directorate is the core business owner of the FIC. This directorate has five teams: Report Receiving, Financial Crime Analysis, Organized Crime and Terrorism Analysis, Strategic Studies, and Supervision.<sup>327</sup> The reporting team receives reports, specifically, from the banks. Initially, the banks submitted their report in paperwork, but since 2015 the reporting system became online. The reporting team transfers the report to the Financial Transactions Examination and Analysis Directorate. The Director sees the highlight of the case and forwards it to the financial intelligence analysis team—either to the Financial Crime Analysis Team or Organized Crime and Terrorism Analysis Team based on the type of the predicate offenses and nature of the transaction.<sup>328</sup> The FIC gives priority to high threat offenses identified in the national risk assessment including corruption, tax evasion, human trafficking, goods smuggling (contraband), illegal *hawala*, and fraud. The analysis team conducts an in-depth analysis of the case. Finally, if there is a suspicion about the commission of money laundering or predicate offenses, the case is referred to the Federal Police Commission Bureau of Crime Investigation.

The Supervision Team conducts on-site visits to assess, how the financial institutions or non-financial businesses and professions comply with the anti-money laundering regulations and identifies institutions that have deficiencies in their anti-money

laundering measures. This team also makes recommendations on how the deficiencies are rectified. Sometimes, this team conducted joint supervision with regulatory authorities. The Strategic Studies Team conducted research and evaluation on the typologies of money laundering in Ethiopia and then dispatched the findings to partner organizations engaged in combating and preventing money laundering and associated predicate offenses.

## **2. Achievements of the Center**

The FIC has an ongoing and profound impact on the development of Ethiopia's anti-money laundering regime. The Center provides awareness creation/capacity-building trainings for its employees, law enforcement agencies, prosecutors, judges, media, lawyers, banks, accountants, auditors, and insurances.<sup>329</sup> The Center, in collaboration with international and regional organizations such as the Global Center on Cooperative Security, UNODC, ESAAMLG, IGAD, and most recently with Tana Copenhagen has provided several awareness creation/capacity building trainings. The awareness creation trainings are addressing the FIC's immediate anti-money laundering technical assistance needs and assisting its leadership in laying a solid foundation for the capacity building going forward (Global Center on Cooperative Security [GCCS], 2014). The trainings also assisted Ethiopia in overcoming the deficiencies identified by FATF in 2010 and 2017; raising national awareness of anti-money laundering laws, issues, and roles of relevant institutions among the public; and supporting Ethiopia in building effective platforms for cohesive interagency coordination and international cooperation (GCCS, 2014). It eventually led to the application of money laundering prevention measures by reporting entities, and enable the competent authorities to begin investigating, prosecuting, and adjudicating of money laundering cases.<sup>330</sup>

The FIC has also played a significant role in the development of the country's anti-money laundering normative frameworks including the prime anti-money laundering law—Proclamation No.780/2013, National Anti-money Laundering and Combating the Financing of Terrorism Policy, directives –No. 01/2014 and 02/2016 that assist financial institutions and DNFBPs, respectively to comply with their anti-money laundering obligations, a standard operating procedure for financial intelligence analysis, guidelines, formats, and national roadmap.<sup>331</sup>

The Center has also played a prominent role in the commencement of the application of money laundering prevention measures by reporting entities, investigating, and prosecuting money laundering cases, and tracing, identifying, seizing, and freezing the proceeds or instrumentalities of criminal activities. In addition, the Center plays its role in establishing the National Anti-money Laundering Committee and strengthening domestic and international cooperation in combating and preventing money laundering.<sup>332</sup> Furthermore, the Center has prepared a new organizational structure and started its implementation. At the international level, the FIC became a member of the ESAAMLG and Egmont group and saved Ethiopia from blacklisting as non-cooperative jurisdiction and territory in 2014 and 2019.<sup>333</sup>

### **3. Challenges and Limitations of the Center**

Despite the Center's impressive achievements, it has certain limitations and has experienced several challenges. It has a shortage of analytical professionals and limited technological capabilities.<sup>334</sup> The Center's mandates overlap with those of law enforcement agencies and supervisory authorities, resulting in a conflict of responsibilities and makes

the center defocus on its core functions.<sup>335</sup> There are also problems associated with the organizational structure and accountability of the Center.

The number of STR, CTR, and wire transfer reports coming from the banks and other financial institutions to the FIC is increasing.<sup>336</sup> The FIC is also working to extend the reporting obligation to all non-financial businesses and professions. However, the capacity of the Center to conduct financial intelligence analysis is limited. This limitation emanated from the bulkiness of the reports, the Center's shortage of analytical experts, and limited technological capabilities.<sup>337</sup> The Center has two teams engaged in conducting financial intelligence analysis. However, the teams are understaffed, have less than five experts. These experts analyze the CTR, STR, and other reports coming from the banks and other reporting entities. A research participant from the Center noted that<sup>338</sup> “due to shortage of experts, the Center is unable to review all of the reports received from the reporting entities”.<sup>339</sup> Besides human power, the Center has limited technological facilities to conduct financial intelligence analysis. The software used to conduct financial intelligence analysis is developed within the FIC (house-made software) and has limited capacity, specifically to perform link analysis.<sup>340</sup> In 2015, the FIC has signed a contractual agreement with the Ethiopian Information Network Security Agency (INSA) to develop more advanced software for financial intelligence analysis. Even though INSA has taken considerable time to develop the software, it has not yet been finalized.<sup>341</sup>

The Center has also a limited capacity to conduct strategic studies on the mechanisms and typologies of money laundering committed in Ethiopia. As of April 2021, the Strategic Studies Team has only two staff members—the team leader and one expert. So far, the team has conducted only five typology studies—on illegal *hawala*, black market

exchange, usury, virtual currencies, and financial crimes that would be committed during COVID 19.<sup>342</sup>

The Ethiopian anti-money laundering law provides an extensive mandate to the FIC. Some of the FIC's mandates are overlapping with the mandates of regulatory authorities and law enforcement agencies. The FIC has the mandate to conduct a preliminary criminal investigation and to supervise the compliance of reporting entities with the country's anti-money laundering legal norms. These are also the mandates of the law enforcement agencies and the supervisory authorities. In other words, there are overlapping mandates between the FIC and the law enforcement agencies, and between the FIC and the supervisory authorities including the National Bank. This is creating duplication of tasks and counteracts the efficiency and effectiveness of the Center. The overlapping of mandate extends the tasks of the Center beyond the core functions of the financial intelligence units, specifically the supervision of reporting entities, and affects the FIC not to focus on its core functions.<sup>343</sup>

The FIC has a problem of organizational structure and accountability. First, the new organizational structure of the FIC provides due emphasis for auxiliary works than the core business areas of the Center.<sup>344</sup> The Center has six directorates, the Financial Transactions Examination and Analysis Directorate is the only core business owner of the Center. Second, the FIC in collaboration with different partner organizations has provided capacity building/awareness-raising trainings on the issues of money laundering, terrorist financing, and the proliferation of weapons of mass destruction. However, the Center lacks a department designated for this purpose.<sup>345</sup> Due to this reason, the awareness-raising programs of the Center lacks institutionalization.

Third, shifting the accountability of the FIC from one institution to another, and ultimately making the FIC accountable to the Ministry of Peace has been affected the competency of the Center. The FIC is a regulatory institution of the country in the areas of money laundering, countering the financing of terrorism, and the weapons of mass destruction. In the past eight years, the accountability of the FIC was shifted from the National Bank to the Office of the Prime Minister, and then to the Ministry of Peace. Shifting the accountability of the Center to different institutions within a short period creates a problem of steadiness on the Center.

Moreover, the Center empowered to regulate several ministerial offices such as the Ministry of Mines and Energy, Ministry of Urban Development and Construction, Ministry of Trade and Industry, Office of Federal Attorney General, Ethiopian Customs Commission, and Ethiopian Accounting and Auditing Board on the areas of money laundering and associated predicate offenses. This signifies, the FIC is accountable to a Ministry but empowered to control and supervise other ministries.<sup>346</sup> However, how can an institution accountable to a ministry, get the courage to supervise and guide another ministry? Therefore, to supervise and control these ministerial bodies—whether they comply with their anti-money laundering obligations, making the FIC accountable to the body overhead of the ministries—Office of the Prime Minister would be crucial.<sup>347</sup>

This study also finds that the perception of some institutions and individuals (members of the reporting entities, competent authorities, and regulatory institutions) to the Center has a detrimental effect on the performance of the Center.<sup>348</sup> They consider the Center either as an export and import business checkpoint station controller, investigative authority, or intelligence office.<sup>349</sup> Moreover, some institutions and individuals considered

the work of preventing and suppressing money laundering as the exclusive mandate of the FIC. These institutions and individuals considered dismantling the menace of money laundering as an extra burden and imposed by an external body—the FIC.<sup>350</sup> Such perceptions have a negative effect on the Center’s performance to prevent and suppress the menace of money laundering, specifically inter-agency coordination and cooperation. To address this problem, the Center provides several awareness-raising programs. However, as the informants of this study revealed, “though it is changing with time, the perception still existed in some institutions and individuals”.<sup>351</sup>

### ***Law Enforcement Agencies***

When the FIC suspects the commission of money laundering and associated predicted offenses, it refers the case to appropriate law enforcement agencies. In Ethiopia, during the beginning of 2010s, the investigation and prosecution activities were highly decentralized and disorganized.<sup>352</sup> A criminal investigation has been conducted by several law enforcement agencies, such as the Federal Police Commission, Federal Attorney General, the Federal Ethics and Anti-Corruption Commission, and the Ethiopian Customs Commission. However, in 2016 the investigation and prosecution mandates of the Customs Commission, the Anti-Corruption Commission were respectively transferred to the Federal Police Commission and Office of Federal Attorney General.<sup>353</sup>

The Ethiopian Federal Police Commission plays a crucial role in preventing and detecting money laundering and its predicate offenses. To fulfill its nationwide mandate the Commission is structured into four main sectors and two-sub sectors.<sup>354</sup> The main sections are Crime Prevention, Federal Bureau of Investigation, Ethiopian Police University, and Human Resource Administration.

The Crime Prevention Sector plays an essential role in combating the predicate offenses of money laundering. This sector is organized as Organized Criminals Control and Anti-Terrorism Directorate, Anti-Contraband Directorate, Firearms Administration and Control Directorate, Anti-Narcotic Directorate, Rapid Police Force Directorate, and Peace and Law Enforcement Directorate.<sup>355</sup> These directorates are tasked with preventing organized crimes, such as narcotics trafficking, human trafficking, smuggling of small arms and light weapons, illicit trade in their jurisdiction. The Federal Bureau of Investigation has a Transnational, Organized and Special Crimes Investigation Directorate, Corruption Crimes Investigation Directorate, Financial Crimes Investigation Directorate, and Tax and Customs Crimes Investigation Directorate.<sup>356</sup> These directorates investigate the predicate offenses such as corruption, contraband (illegal trade), fraud, illegal *hawala*, human trafficking, people smuggling, drug smuggling, and arms dealing. Aside from the predicate offenses, the Bureau has recently started the investigation of money laundering cases. Furthermore, the Bureau in its most recent structural arrangement, 2019, formed departments of forensic accounting, money laundering and terrorist financing investigation, and illicit asset identification and administration unit.<sup>357</sup> This intends to improve the Bureau's ability to investigate financial crimes. However, in January 2020, the illicit assets identification and administration unit was transferred to the Office of Federal Attorney General.<sup>358</sup>

The Federal Attorney-General and its equivalent offices in the ten regional states and two city administrations, are the statutory offices in Ethiopia mandated to carry out criminal prosecution including money laundering.<sup>359</sup> In cases of money laundering and its predicate offense, the Office of Attorney General has five mandates.<sup>360</sup> These are leading

the investigation process, prosecuting suspected criminals, identifying, freezing, seizing, and administering the proceeds or instrumentalities of criminal activities, preparing draft bills, specifically proclamations and regulations and submitting them, respectively to the House of People Representatives (the parliament) and Council of Ministers, and engaging in awareness creation programs.

The Federal Police Commission and the Office of Federal Attorney General have begun the investigation and prosecution of money laundering, which has resulted in criminal convictions and confiscation of criminal proceeds or instrumentalities (FDRE, 2016b). These organizations are also engaged in human resource development as well as the establishment of departments dedicated to the prevention and detection of money laundering and associated predicate offenses.<sup>361</sup>

However, law enforcement agencies have certain limitations and have faced several challenges. First, some financial crimes investigators and prosecutors are unfamiliar with the concept of money laundering, domestic and international anti-money laundering laws, the patterns of money laundering and associated predicate offenses, and its detecting techniques.<sup>362</sup> From 2012-2016, more than 350 investigators and over 100 prosecutors have received anti-money laundering trainings conducted by both domestic and foreign professionals (FDRE, 2016b, p. 49 & 50). However, as compared to the total number of financial crime investigators and prosecutors, the anti-money laundering training coverage is extremely inadequate. Due to this reason, there is a knowledge and skill gap among financial crime investigators and prosecutors in investigating and prosecuting money laundering and associated predicate offenses.<sup>363</sup>

Besides, while a small number of investigators and prosecutors have the opportunity to attend different trainings, the trainings are not tailored to reality.<sup>364</sup> This study finds that few investigators and prosecutors have theoretical knowledge of money laundering, its effect, the *modus operandi*, and money laundering detection techniques, but they have difficulty implementing practically. The training was exceedingly focused on the investigation of money laundering disassociated from the predicate offenses.<sup>365</sup> In return, this would become a challenge for the investigators to undertake parallel criminal investigations—investigating money laundering in parallel to the investigation of the predicate offenses.<sup>366</sup>

Second, as a corollary of the preceding limitation, the mindset to “follow the money” or the *maxim* “crime should not pay” has yet to take hold. The prosecutions and convictions of money laundering are few when compared to the number of prosecutions and convictions for predicate offenses (FDRE, 2016b). Most court cases depicted that investigators and prosecutors are investigating and prosecuting the commission of the predicate offenses but not money laundering.<sup>367</sup> In other words, individuals are convicted for the commission of corruption, arms trafficking, human trafficking, people smuggling, illegal *hawala*, and tax evasion without the proceeds or instrumentalities of their criminal activities being traced, frozen, seized, and confiscated. The country’s investigation and prosecution systems did not fully integrate the principles of crime should not pay as well as follow the money. The Federal Police Commission, specifically the Federal Bureau of Investigation has little experience in investigating money laundering cases.<sup>368</sup> In the Commission, the practice of parallel financial crime investigations was not routinely

pursued. The proceeds or instrumentalities of crime were sometimes used as exhibits—evidence for the commission of the predicate offenses.<sup>369</sup>

The prosecutor is also responsible to lead the investigation process (FDRE, 2016c, Art. 6(3)). It is mandated to order the detective police officer to conduct a parallel criminal investigation. Even though the law empowers the prosecutor to commence and lead the investigation process, under Ethiopian legal education, prosecutors are not trained in how to commence and lead criminal investigations.<sup>370</sup> This hinders the prosecutor from taking the lead on the investigation in general and ordering to conduct a parallel investigation. Based on the allegation, the court orders the suspected person's conviction for the commission of the predicate offenses, but not for the confiscation of the proceeds or instrumentalities of crime.<sup>371</sup> Regrettably, in some cases, the court order to return the proceeds of the crime to the convicted person.<sup>372</sup>

Third, there is a disagreement between the Federal Police Commission and the Office of Federal Attorney General regarding the establishment of illicit assets recovery and administration units. Tracing, freezing, and seizing the proceeds or instrumentalities of crime is the main deterrent mechanism of organized criminal groups, including money launderers.<sup>373</sup> This necessitates the development of an effective strategy for both obtaining a criminal conviction (if possible) as well as recovering the proceeds or instrumentalities of criminal activities. The Ethiopian anti-money laundering, anti-corruption, and anti-trafficking in persons and smuggling of migrants' laws provide for the recovery of criminal proceeds and stolen assets. This requires an institution with qualified practitioners and the requisite technological capabilities. In Ethiopia, however, such kind of institution has yet to be founded.<sup>374</sup>

The Office of Federal Attorney General and the Federal Police Commission have made sporadic attempts to establish an illicit assets recovery and administration unit. These sporadic attempts are also becoming a point of disagreement between the Attorney's Office and the Federal Bureau of Investigation.<sup>375</sup> Despite this disagreement, in February 2020, the Office of Federal Attorney-General formed an Asset Recovery and Prosecution Directorate<sup>376</sup> (including the unit that was under the Federal Police). However, the Federal Police Commission continues its claim tracing, freezing, seizing, and administrating the proceeds or instrumentalities of crime is its mandate, and the unit has to be under its structure.<sup>377</sup> This has a negative effect on tracing, freezing, and seizing criminal proceeds. The non-existence of harmonized national policy objectives for tracing, freezing, seizing and confiscating the proceeds or instrumentalities of crime exacerbates the problem.<sup>378</sup> Aside from that, there is no clear guideline (standard operating procedure) for how the FIC or the Federal Police Commission decided to commence a financial crime investigation with the goal of confiscation.

Fourth, criminal investigation in Ethiopia places a strong emphasis on obtaining oral testimonies. Securing oral evidence is necessary, but not sufficient, for money laundering cases to be convicted. Money laundering is a financial crime that requires collecting financial evidence. Financial evidence is an uncontestable international standard. These types of evidence are also crucial in tracing the predicate offenses of money laundering. However, the investigation department's capacity to collect technical evidence is very limited, and it relies on obtaining oral testimonies.<sup>379</sup> This is one of the reasons for the low number of money laundering prosecutions and convictions as compared to the number of prosecutions and convictions of predicate offenses.

Fifth, Ethiopia lacks well organized national money laundering database. The existence of well-organized money laundering data will assist in estimating the amount of proceeds generated by the predicate offenses. It also helps in the identification of money laundering typologies used to legitimate ill-gotten gains. Furthermore, policymakers may utilize the data to develop appropriate anti-money laundering measures and allocate state resources. In Ethiopia, the Federal Police Commission, state and city administration police commissions, and the FIC are all struggling to have their crime database. This is, however, a sporadic and uncoordinated effort that lacks trained personnel and technology.<sup>380</sup>

Sixth, the Ethiopian Federal Police Commission, specifically the Federal Bureau of Investigation, has a problem of organizational structure and shortage of trained human power to investigate cases of money laundering and associated predicate offenses. The Federal Bureau of Investigation has been established departments of Money Laundering Investigation and Forensic Accounting.<sup>381</sup> A small number of police officers have also been assigned to work in the Money Laundering Investigation Division. The police officers have also been attained different capacity-building trainings.<sup>382</sup> Having a separate money laundering investigation division signifies, in the Bureau, there is a belief that the investigation of money laundering is disentangled from the investigation of predicate offenses. According to this structure, when a person is suspected of committing corruption, the investigation of the crime of corruption is handled by the Corruption Crimes Investigation Directorate, while the investigation of money laundering is conducted by the Money Laundering Investigation Division.<sup>383</sup> In this case, one criminal incident is investigated by two investigative officers or teams. This goes against the principle of

parallel criminal investigation and would have a negative effect on the outcome of the investigation process.

Furthermore, in the second half of 2019, the Federal Police Commission Bureau of Crime Investigation overhauled its organizational structure. Under the new structure, a Forensic Accounting Investigation Department was established. This department was established to address the prevailing dimness of financial crime investigation of the country. However, the new department lacks trained human power and is not equipped with modern investigation equipment.<sup>384</sup>

## **7.2. Inter-agency Coordination and International Cooperation**

### **7.2.1. Inter-agency Coordination**

To prevent and suppress the menace of money laundering, the Ethiopian anti-money laundering system, follows a whole-government approach. All public and private institutions with an interest in money laundering prevention and suppression are involved in the National Anti-money Laundering Committee. As a result, the country's anti-money laundering initiatives require strong inter-agency coordination. This applies to both policymaking and program implementation. The process of policymaking and implementation has to be seen as a single integrated system rather than a series of discrete or loosely connected parts. A strong and responsive agency is essential to guide this process.

Ethiopia has made substantial progress in fostering inter-agency coordination and collaboration during the last decade. A National Committee for Anti-money Laundering and Countering the Financing of Terrorism has been established. The country has also

created a platform in which the competent authorities, reporting entities, and regulatory bodies to collaborate through the signing of a memorandum of understanding (MoU).

The National Committee plays an instrumental role in facilitating interagency cooperation and providing policy and administrative support to the overall anti-money laundering regime of the country. At the policy development level, the Committee has done commendable works in coordinating the enactment of the anti-money laundering legal norms, finalizing the national risk assessment, and adopting the Anti-Money Laundering Policy.<sup>385</sup>

At the policy implementation level, the Ethiopian anti-money laundering law gives competent authorities and regulatory organizations the power to enter into cooperative agreements with one another in order to facilitate cooperation and information sharing (FDRE, 2013, Art. 13(9)). The FIC has officially signed MoU with the Ethiopian Federal Police Commission, Federal Attorney General, Federal Ethics and Anti-Corruption Commission, Ethiopian Customs Commission, National Bank of Ethiopia, Bankers Association, Ethiopian Accountants and Auditors Board, and Minister of Mines and Energy (FDRE, 2016b, p. 45; FIC, n.d). All parties that enter into MoU have designated a dedicated contact person who is responsible for inter-agency collaboration and coordination. The signing of the MoUs enables the FIC to provide training and to share and exchange information.<sup>386</sup> A joint committee has been formed between the FIC and Federal Police, as well as the FIC and the National Bank. Regular meetings of a joint committee of FIC analysts and Federal Police Commission investigators were held to follow criminal cases as well as fill capacity and intelligence gaps. Financial institutions were jointly supervised by the FIC and National Bank's joint committee.<sup>387</sup>

The system for inter-agency collaboration and coordination has been established. However, it is in its early stage of development and has certain shortcomings. Lack of institutionalized inter-agency coordination is one of the weaknesses of the country's anti-money laundering regime.<sup>388</sup>

Collaboration and coordination necessitate the transfer of some authority to another body/state. In the Ethiopian anti-money laundering regime, several ministries are part of the National Committee which are designated as supervisory authority, reporting entity, or both. The ministries are expected to cede power and place themselves under the direction of another ministry, as well as to go beyond their core responsibilities to enforce the anti-money laundering regulations.<sup>389</sup> Albeit the normative frameworks; the practical implementation of inter-agency coordination is challenging. In principle, all ministries are equal, putting one under the authority and supervision of another presents complications.<sup>390</sup> Second, there is a widespread belief that the FIC is solely responsible for fighting and combating money laundering in the country.<sup>391</sup> As a result, several institutions, whether competent authorities, reporting entities, or regulatory authorities do not take tackling money laundering as their primary agenda.<sup>392</sup> For instance, on the issue of trade-based money laundering, the National Bank of Ethiopia issued several laws governing the international trade system. The Bank stated that "I am responsible for the issuance of laws and regulations, but it is the responsibility of the Ethiopian Customs Commission to implement and enforce the laws".<sup>393</sup> The Customs Commission responds, "our major goal is to collect revenue not to implement every law of the National Bank".<sup>394</sup> The FIC on its part maintained that it is not mandated to conduct an investigation, seize illicit proceeds, and apprehend individuals suspected of violating the trade practice.<sup>395</sup> The Center argued

that these are the mandate of the Customs Commission and other law enforcement agencies. Such miscoordination is an obstacle to the effectiveness of anti-money laundering operations.

As previously noted, there is a disagreement between the Federal Police Commission and the Office of Federal Attorney General on the establishment of illicit asset recovery and administration unit. The Federal Police continue to assert that recovering and administering illicit assets is part of its mandate.<sup>396</sup> This added further fuel to the country's decentralized and intermittent illicit assets recovery and administration system.

Prosecutors are mandated to lead and follow up criminal investigations under the Office of Federal Attorney-General founding statute (FDRE, 2016, Art. 6(3(a))). However, the Federal Police Commission, specifically the crime investigation department, argues<sup>397</sup> that “prosecutors lacked adequate knowledge and skill to conduct a criminal investigation, therefore, empowering the prosecution office to lead the investigation process is creating unnecessary interference on police work.” Inter-agency coordination has become awkward as a result of this. Legally, the police institution is accountable to the Ministry of Peace not to the Office of Attorney General. Police criminal investigators,<sup>398</sup> further argued that “it is unclear why the law empowered the Office of Attorney General to lead criminal investigations, while the police is not accountable to the Office.” This type of disagreement added further complexities to the weak inter-agency coordination.

Moreover, the cooperation between the federal government and state governments in combating and preventing money laundering and its predicate offenses is unfledged. Sometimes, the regional governments have been known to sabotage the law enforcement efforts of the federal government and intimidate crime investigators of the federal

government.<sup>399</sup> Regional governments, specifically their competent authorities, have gone so far as to say that the federal government targeted these individuals not because they had committed crimes, but because they belong to a particular ethnic group.<sup>400</sup>

In sum, various efforts have been made in the preceding decade to improve inter-agency cooperation and coordination. The inter-agency coordination in return has contributed to the development of the Ethiopian anti-money laundering regime by initiating the enactment of Proclamation No. 780, finalizing the national risk assessment, and more recently enacting the National Anti-money Laundering and Combating the Financing of Terrorism Policy. Pragmatically, it enables to deliver several awareness-raising trainings, reports suspicious transactions, undertakes anti-money laundering supervisions, conducts financial intelligence analysis, and commences the investigation and prosecution of money laundering cases. Even though it is fairly limited, it enables to trace, seize, freeze and confiscate the proceeds or instrumentalities of criminal activities. However, as previously stated, it has certain strategic deficiencies. These deficiencies have a critical impact on the effectiveness of the country's anti-money laundering institutional arrangements.

### **7.2.2. International and Regional Cooperation**

Financial operations have become more globalized, while the law remains parochial. Criminals took advantage of this opportunity to make their criminal activities more transnational and borderless. Furthermore, criminals take advantage of the difference in laws among countries. Therefore, one of the best mechanisms for combating transnational criminality, including laundering the proceeds or instrumentalities of crime, is to have robust international and regional cooperation and coordination. International and regional

cooperation is often crucial to the success of money laundering investigations, prosecutions, and asset recovery.

International relations were traditionally was fairly centralized and conducted according to diplomatic protocols. However, at present, international cooperation and coordination are becoming decentralized and fragmented. This is manifested in the Ethiopian anti-money laundering regime. As noted in Chapter 5, several institutions in the country have the authority to undertake international bilateral and multilateral relations. The country's competent authorities including the Office of Federal Attorney General, the FIC, and the Federal Police Commission have established a department designated for international relations (FDRE, 2016c, Art. 6(12); FDRE, 2013, Art. 14; FDRE, 2011, 6(37)).

The FIC has signed MoU with several financial intelligence units of different countries such as Angola, Djibouti, Kenya, Mozambique, Mauritius, Somalia, South Africa, Sudan, Tanzania, Uganda, and Zimbabwe (FIC, 2019). MoUs with other four countries are also under process.<sup>401</sup> The MoUs help the FIC in establishing a secured web-relation with its counterparties and facilitating requests for mutual legal assistance. In addition, the FIC became a member of the ESAAMLG–FATF Style Regional Bodies (joined on September 06, 2013), and the Egmont Group of Financial Intelligence Units (joined on July 3, 2019) (Egmont Group, 2019). This enables the FIC to exchange financial intelligence information with its foreign counterparts in a more secured manner.<sup>402</sup> This would also enable the FIC to get technical assistance and support, and eventually to improve its expertise and capabilities.

As part of the international and regional cooperation and coordination, Ethiopia has also established a focal point within the Federal Ethics and Anti-Corruption Commission to follow up the Asset Recovery Inter-Agency Network for Eastern Africa (ARINEA) and the Interpol Asset Recovery Focal Points Network (STAR). Moreover, the Federal Ethics and Anti-Corruption Commission and others cooperated with that of the South Sudanese Commission (FDRE, 2016b). The Federal Police Commission has also signed MoUs with the Police Commissions of China, Djibouti, and South Sudan (Fana Broadcasting Corporate, March 20, 2021; Helen, March 12, 2021). The MoUs' goal is to undertake joint border operations, share information and experience, and engender qualified police personnel.

The Commission is also a member of Interpol (since 15 September 1958) (Interpol, n.d), and Eastern Africa Police Chief Cooperation Organization (EAPCCO). These are important platforms for mutual legal assistance and extradition. The Federal Police exchanges and shares information with Interpol through its National Central Bureaus (NCBs) located at the Federal Bureau of Investigation. Based on the mutual legal assistance exchanged with Interpol members states, several individuals suspected of the commission of the crime in Ethiopia but taken fugitive in other countries are extradited. EAPCCO is established to serve as regional police mutual legal assistance and extradition platform, but it is in its early stage of development.

Moreover, Ethiopia is a member state of the Intergovernmental Authority on Development (IGAD), the Common Market for Eastern and Southern Africa (COMESA), and the Extractive Industries Transparency Initiative (EITI). Ethiopia has also signed

bilateral treaties on criminal matters with China, Djibouti, Sudan, and Yemen (FDRE, 2016b, p. 48; World Bank-ESAAMLG, 2015, p. 70).

From 2010 to 2016, Ethiopia received 8 requests for mutual legal assistance from Egypt, Kenya, Pakistan, Switzerland, Turkey, Yemen, and the United Arab Emirates. Four have been granted, and three are being considered (FDRE, 2016b, p. 48). Ethiopia has received five extradition requests from Sudan, Djibouti, and the United States of America (FDRE, 2016b, p. 48). Three of the requests were turned down because they included extradition of Ethiopians. However, efforts are being made to prosecute the suspects in Ethiopia. Extradition requests were also sent to Germany, Sweden, South Africa, and the United Arab Emirates (FDRE, 2016b). In Germany, the request was granted, and the authorities were able to identify and extradite the suspect to Ethiopia. In the case of the United Arab Emirates, the fugitive was located, and extradition was requested on the basis of reciprocity.<sup>403</sup>

Ethiopia has made considerable progress to strengthen its international cooperation for combating and preventing money laundering and associated predicate offenses. However, a permanent system dedicated to handling cases and disposing of assets is lacking. The bilateral and multilateral cross-border cooperation is exceedingly decentralized and disorganized. Each competent authority has the mandate to establish cross-border relationships, however, gaps have existed. Moreover, there are gaps in the implementation of bilateral or multilateral agreements or arrangements on mutual legal assistance and extradition. Among others, this gap is wreaked by the prevailing lack of the required expertise and data management system to conduct money laundering agreements or extradition.

### **7.3. The Effectiveness of Anti-money Laundering Institutions**

Since 2012, Ethiopia has made substantial progress in strengthening its anti-money laundering institutions. The country established new institutions and enlarged the mandate of existing institutions to counteract the debilitating effect of money laundering. As previously indicated, these institutions have registered considerable progress. However, a logical concern that arises is whether the country's anti-money laundering institutions are effective in preventing and suppressing the threat of money laundering to the country's economy and security?

The effectiveness of anti-money laundering regulations is measured through intended outcomes (goals). Participants<sup>404</sup> of this study stated that the goal of Ethiopia's anti-money laundering system is to protect the country's name and reputation at the international level or to save the country from being blacklisted by the FATF and other international organizations. Others stated that<sup>405</sup> the goal of Ethiopia's anti-money laundering regulations is to maintain financial integrity, law and order, and fair business competition. Although the participants of this study provide two different goals of the country's anti-money laundering legal system, the goals are complementary and mutually inclusive. By the same token, maintaining financial integrity, preserving the country's peace and security, and creating a fair business competition, eventually led to the promotion of the name and reputation of the country at the international level.

In this dissertation, the effectiveness of Ethiopia's anti-money laundering institutions is assessed based on the pillars of the country's anti-money laundering regime. The variables utilized to measure the effectiveness of Ethiopia's anti-money laundering regime are (i) the compliance of reporting entities to the anti-money laundering packages

(pursue a risk-based approach, undertake KYC/CDD, report STR and CTR to the FIC), (ii) the capability to collect, analyze, and disseminate financial intelligence, (iii) the capability of the supervisory authorities to conduct proper anti-money laundering supervision, (iv) the capability of law enforcement agencies to trace, identify, seize and freeze the proceeds or instrumentalities of crime, and (v) inter-agency coordination and international cooperation.

Based on these variables, this research finds that although Ethiopia has established its anti-money laundering institutional arrangements, the institutions lack effectiveness to address the threat of money laundering to the country's economy and security.

The reporting entities except the banks, have yet to begin implementing anti-money laundering preventive packages. Even the banks have low anti-money laundering training coverage, the STR and CTR reports focused on a few predicate offenses, and the compliance unit is not well equipped. Furthermore, the banking sector places a high priority on its core banking business and occasionally overlooks its anti-money laundering responsibilities including establishing a business relationship without undertaking KYC/CDD. Recently, other financial institutions, such as insurance companies, money transfer agents, and microfinance institutions have partially begun to employ anti-money laundering measures. However, the second category of reporting entities, certain non-financial businesses and professions, have yet to begin executing the country's anti-money laundering packages. In general, the compliance of reporting entities to the country's anti-money laundering laws is in its early stages and makes it difficult to assess its effectiveness.

In Ethiopia, anti-money laundering supervision of reporting entities has recently begun. The National Bank and the FIC supervise financial institutions either unilaterally

or jointly. However, the supervision is primarily focused on banks, and other reporting entities are not subject to it. Except the National Bank, other regulatory institutions have yet to begin supervision. Even the National Bank lacks the competence and skills required to carry out proper anti-money laundering supervisions.

The FIC is a key player in the fight against money laundering. The Center, however, has several limitations and has experienced numerous challenges. The Center's capacity to gather, analyze and disseminate financial intelligence is limited (both human power and technological). In addition, the Center's capacity to conduct typology studies and supervise reporting entities is limited. Moreover, the Center's mandates overlap with those of law enforcement agencies and supervisory authorities, creating a conflict of responsibilities and causing the Center to defocus on its core functions.

In Ethiopia, the investigation and prosecution of money laundering have begun recently. However, due to the clandestine nature of the crime and the knowledge and skill gaps of investigators and persecutors, the principle of crime should not pay is not upheld. The practice of tracing, identifying, seizing, and freezing criminal proceeds is in its infancy. The law enforcement agencies do not conduct a parallel investigation. In addition, the investigation process is exclusively focused on obtaining oral evidence.

Moreover, there is no institutionalized inter-agency coordination and international cooperation. The Federal Police Commission and the Office of Federal Attorney General are at odds over the investigation process as well as the establishment of illicit assets recovery and administration unit. Anti-money laundering responsibilities are seen by certain reporting entities, competent authorities and regulatory bodies as an extra burden imposed by an external body. Ethiopia's cooperation with its neighbors, specifically in the

areas of mutual legal assistance and extradition, multilateral/bilateral law enforcement operations is exceedingly limited.

In sum, even though Ethiopia has criminalized money laundering and established several institutions to combat it, money laundering is becoming an unabated threat to the country's economy and security. In a nutshell, the country's anti-money laundering institutions are ineffective.

#### **7.4. Chapter Summary**

This chapter is unique in its discussion of the Ethiopian anti-money laundering institutional arrangements. This study finds that since 2012, the government of Ethiopia has engaged in either establishing new institutions or expanding the mandate of existing institutions to deal with money laundering. The National Anti-Money Laundering Committee and the Financial Intelligence Center, for instance, have been established to lead the country's anti-money laundering efforts. The mandate of existing institutions such as the Federal Police Commission, the Ethiopian Customs Commission, the Office of Federal Attorney General, the National Bank of Ethiopia and other regulatory authorities, and reporting entities is expanded to implement the country's anti-money laundering legal norms.

The researcher examines the operation of the country's anti-money laundering institutions. Usually, the anti-money laundering regime of the country commences its operation by protecting the reporting entities from abusing by money launderers. The reporting entities, notably the banks have begun implementing money laundering prevention measures, such as following a risk-based approach, undertaking KYC/CDD, and reporting cash and suspicious transactions to the FIC. The FIC conducts financial intelligence analysis, and if it suspects the commission of money laundering or associated

predicate offenses, it refers the case to the police or prosecutor for further criminal investigation. The prosecutor filed a charge against the accused person after the investigation was completed.

This study also discovers that in the last decade, the Ethiopian anti-money laundering institutions have made some commendable achievements. These encompass enacting several anti-money laundering normative frameworks, establishing a Financial Intelligence Center and a National Anti-Money Laundering Committee with its technical committee; implementing money laundering preventive measures; and receiving, processing, and disseminating STRs and CTRs. The country's anti-money laundering institutions have also carried out onsite compliance supervisions on financial institutions; prosecuted, convicted and fined offenders and frozen and confiscated the proceeds or instrumentalities of crime; and conducted a series of expertise/technical and general awareness-raising/capacity-building trainings for reporting entities, competent authorities, and regulatory institutions. Furthermore, the study finds that even though it is in its infancy, inter-agency and international coordination and cooperation have been installed. The country's anti-money laundering institutions have signed MoUs that foster inter-agency collaboration and coordination. The FIC also became a full member of the Egmont Group and ESAAMLG.

Even though Ethiopia's anti-money laundering institutions have these achievements, it does not mean that the institutions are effective. The findings of this study uncover that the institutions lack effectiveness in preventing and suppressing the threat of money laundering to the country's economy and security. In the country, criminals committed acquisitive crimes, amassed wealth, saved and invested. The principles of flow

the money, audit trail, and crime should not pay are not settled. The country's anti-money laundering institutions (reporting entities, competent authorities and regulatory bodies) lack skilled and experienced human power, and have weak analytical and technological capabilities. The entire anti-money laundering institutions have low anti-money laundering training coverage compared to the total number of their employees. The report entities except the banks did not fully implement the country's anti-money laundering packages. Except the FIC and the National Bank, other regulatory bodies did not fully comply with their anti-money laundering obligations. The law enforcement agencies have limited experience in conducting parallel investigations, gathering financial evidence, and locating, freezing, and seizing the proceeds or instrumentalities of crime. Moreover, international and inter-agency coordination and cooperation have limited effects. Lack of institutionalized inter-agency cooperation was among the limitations of the country's anti-money laundering regime. The cooperation between the federal government and state government in combating and preventing money laundering and its predicate offenses is unfledged. Gaps are also existed in implementing bilateral or multilateral agreements on mutual legal assistance and extradition. This is attributable to the lack of expertise and limitations associated with the data management system.

# CHAPTER EIGHT

## CONCLUSION

### **Introduction**

Money laundering seriously affects Ethiopia's economy and security. Even though money laundering is causing multi-faceted problems, it is under-researched and under-explored. This study is conceived to fill the identified gap. It provides original and extensive research on money laundering and its countermeasures in Ethiopia. The study specifically examined money laundering and its predicate offenses in Ethiopia, enabling factors for its raising, and laundering strategies. It also elucidated the ramifications of money laundering on the country's economy and security. In addition, the study examined anti-money laundering measures (both normative frameworks and institutions) and their adequacy in preventing and suppressing the economic and security apocalypse. To conduct this study, a qualitative case study has been employed. Data was collected from both primary and secondary sources through in-depth interviews and document reviews. Based on the research approaches and methods employed, this study discovered and drew its conclusions. In this chapter, the major conclusions of this study are presented, followed by an explanation of how this study contributes to the context and theoretical understanding of money laundering and its countermeasures. The major recommendations for further research are then presented.

## 8.1. Major Conclusions

The main empirical findings of this study are chapter-specific and were summarized within the respective empirical chapters. From these empirical findings, this study reached the following main conclusions.

*First*, this study argues that the notion of money laundering incorporated in the Ethiopian anti-money laundering legislation does not capture the whole purpose and picture of money laundering, and has to be redefined. In the country's legal norms, money laundering is described as a concealment process of illicit properties. This description is similar to the definition of money laundering provided by FATF and the UN Convention against Transnational Organized Crime. Arguably, a complete money laundering scheme consists of three steps: placement/concealment, layering/convertion, and integration. Money laundering is not only a concealment process but also it is a cleaning, saving, and investing of the proceeds or instrumentalities of crime in the legitimate economy with a certain level of impunity and anonymity. It is committed to obscure an audit trail and to assure the use of the proceeds of crime with impunity, which is against the moral principle of crime should not pay. As a result, describing money laundering as the process of concealing illicit proceeds does not show the whole purpose and picture of money laundering.

Thus, although the country's anti-money laundering law describes money laundering in line with international anti-money laundering instruments, it needs to redefine what money laundering entails. Scholars such as Durrieu (2013), Masciandaro (2007), and Stessens (2003) have also reached similar conclusions. However, this study further argues that in redefining the notion of money laundering, it is essential to consider

not only the three money laundering phases and its purpose, but also the context (political economy) in which it operates. In countries with a cash-based economy, such as Ethiopia, passing through the three phases is not necessitated to launder dirty money. The cash-intensive nature of the country's economy enables the proceeds of crime to integrate at the placement (initial) stage. This demonstrates that the context in which money laundering operates varies by country, and this is a crucial issue in defining money laundering. This eventually dictates countries to have their own definitions of money laundering that reflect the political economy in which they operate.

*Second*, this study concludes that money laundering mechanisms are highly dynamic, symbiotic, indistinct, and tailored to a country's distinctive political economy. Money laundering is a derivative crime that occurs after criminal proceeds have been generated. The sources of illicit proceeds are commonly known as predicate offenses. The predicate offense of money laundering frequently committed in Ethiopia includes corruption, illegal *hawala*, human trafficking, people smuggling, contraband (goods smuggling), tax evasion, fraud, and arms trafficking. To launder the proceeds of these criminal activities, criminals utilized a variety of laundering strategies. These include money laundering utilizing financial institutions, trade-based money laundering, cash-based money laundering, money laundering through illegal *hawala*, shell or anonymous companies. Scholars such as Ping He (2010) and Irwin, Choo, and Liu (2012), as well as multilateral bodies including ESAAMLG (2018b) and FATF (2006, 2014, 2015, 2017, and 2018) have discovered similar money laundering strategies. However, this study, like Hunter (2019), Schott (2006), Sullivan (2015), and Unger and Hertog (2012), asserts that

money launderers are highly creative—when authorities detect one method, the criminals quickly devise a new one.

Aside from this, this study concludes that the laundering mechanisms are highly interdependent and blurred. For instance, in Ethiopia, banks are engaged wittingly or unknowingly in trade-based money laundering when they facilitate, settle, or finance international trade transactions, such as through processing wire transfers, providing trade finance, and issuing letters of credit and guarantees. The banks are also engaged in money laundering through the physical transportation of cash to foreign jurisdictions. In this laundering mechanism, banks assist criminals in re-entering the smuggled foreign currency as generated from “legitimate” export-import businesses. Furthermore, this study discovers that the line between illegal *hawala* and trade-based money laundering, cash-based money laundering and money laundering utilizing illegal *hawala* or money laundering using shell companies and trade-based money laundering, remains blurred.

Moreover, this study concludes that money laundering techniques are highly tailored to a country’s distinctive political economy. In other words, criminals employed the laundering strategies mentioned in Chapters 2 and 3 of this dissertation that suited the country’s context—political and economic system. For instance, money laundering via the physical transportation of cash in Ethiopia is highly tailored to Ethiopia’s context and would differ from other countries. The sources of illicit money, amassment and smuggling mechanisms, actors involved in the smuggling process, and the destination of the smuggled money vary from other countries. This demonstrates that a country’s economic and political context has a critical role in determining how money laundering operates.

*Third*, this study discovers that the political economy of Ethiopia is providing an appealing environment for money laundering to grow. The nature of Ethiopia's economy, which is cash-intensive and informal, fast-growing but loosely regulated, the emergence of an underground banking system, and an acute shortage of foreign currency reserves are enabling factors for the growth of money laundering. Moreover, the rise of the elite cartel model type of systematic corruption, limited law enforcement capabilities, the country's geopolitical position, porous borders, and limited cross-border cooperation and information sharing with its neighbors have all contributed to the growth of money laundering in Ethiopia.

Moreover, this study uncovers that money laundering is highly country and sector-specific. As stated above, Ethiopia has a distinct political economy. Ethiopia's political economy is distinct from that of industrialized countries or other developing countries. Because each country has a distinct political economy; the predicate offenses, laundering strategies, and the whole money laundering process vary from one country to another. Even within a country, the threat of money laundering or the laundering mechanisms varies from sector to sector. That is to say, the threat of money laundering to the banking sector varies from the insurance sector. The same applies to brokers and lawyers. That is why this study concludes that money laundering is highly country and sector-specific.

*Fourth*, this study finds that loosely regulated economic growth and money laundering have a positive relationship. Ethiopia's economy has grown at double-digit rates for more than a decade. Criminals (both domestic and foreign) want their share from this economy. This economy, however, was loosely regulated. This loosely regulated economic growth provides new opportunities for criminals to commit acquisitive crimes and launder

it. Predicate offenses of money laundering such as usury, contraband (smuggling of goods), trade mis-invoicing–misrepresentation of price and quantity, fictitious trade practices, illegal *hawala*, bribery, and embezzlement, as well as subsequent laundering, have partly emerged as a result of lax economic regulations. This enables the researcher to conclude that loosely regulated economic growth and money laundering have a direct relationship.

*Fifth*, the study discovers that in countries like Ethiopia, foreign currency governance has a significant contribution to the emergence of financial crimes such as illicit financial flows, black market exchange, and then money laundering. Foreign currency in Ethiopia is vigorously regulated by the government. The government, through its central bank, determines the exchange rate of foreign currency. Businesspersons or anyone traveling from Ethiopia can only obtain foreign currency at the head office of commercial banks, after passing stringent screening procedures. In addition, the country's export and import trade system is not balanced, resulting in a scarcity of foreign currency reserves. Thus, the paucity of foreign currency reserves, the government's determination of foreign currency exchange, and the inaccessibility of the service, led to the rise of several criminal activities such as corruption, illicit financial flows, and black market exchange, paving the way for subsequent money laundering.

*Sixth*, this study discovers that, unlike other organized criminals, money launderers primarily utilize the existing formal state structure, and exist as far as the formal state structure exists. Organized criminals such as human traffickers, firearms smugglers, contrabandists, and drug smugglers create their own shadow structure in parallel to the state structure. Sometimes, these criminal networks appear as an alternative to the state and provide basic public goods, such as security, health, and water. However, money launderers

primarily use the formal state structure. This is derived from the purpose of money laundering. The purpose of money laundering is to transform filthy money into ostensibly legitimate (clean) money. Therefore, to legitimize the dirty money, utilizing the legitimate state structure is essential. This enables the researcher to hypothesize that money laundering can exist as long as a legitimate state structure exists.

*Seventh*, this study finds that the Ethiopian anti-money laundering system is both inadequate and ineffective in addressing the menace of money laundering to the country's economy and security. Money laundering is posing serious economic and security ramifications for Ethiopia. It affects foreign currency reserves, reduces revenue, and impedes fair market competition. Money laundering jeopardizes the national security of the country by consolidating the economic power of criminals. Criminals are affecting the capacity of the government to provide basic public goods, endangering the legitimacy of the government, and obstructing the law enforcement efforts of the country. However, the country's anti-money laundering regime (both normative frameworks and institutions) is inadequate and ineffective to address the ramifications of money laundering on the country's economy and security.

This dissertation assessed the adequacy or effectiveness of anti-money laundering measures in terms of altering the risk factors (both economic and political), laundering strategies, and ramifications. As previously stated, money laundering (causes and laundering strategies) is highly country-specific. However, countries including Ethiopia are pressurized to comply with the international anti-money laundering standards, the FATF 40 Recommendations. The FATF recommendation reflects the anti-money laundering standards of industrialized countries. It focuses on money laundering

committed through the formal financial system and the professional class of launderers. Such standards are inadequate in addressing the threat of money laundering in developing countries with a cash-intensive economy. In other words, the FATF recommendation advocates a one-size-fits-all approach, which is incompatible with the very dynamic and country-specific nature of money laundering. As a result, the pressure of international organizations such as FATF to ensure the compliance of developing countries to the international anti-money laundering standards would save the countries from labeling as Non-Cooperative Countries and Territories. However, it is unlikely to alter the structural causes of the problem.

In this sense, although Ethiopia is highly committed to complying with international anti-money laundering standards (both normative frameworks and institutions), the country's anti-money laundering system has limitations in alerting the enabling factors and laundering strategies. That is to say, despite the fact that Ethiopia's anti-money laundering normative frameworks are the verbatim copy of international anti-money laundering standards, they are inadequate in altering the structural causes, and laundering strategies as well as mitigating the ramifications of money laundering to the country's economy and security. In a nutshell, the country's anti-money laundering legal norms are not accustomed to the country's context. For instance, criminals determine the predicate offenses they commit, and the laundering strategies they employ, based on the nature of Ethiopia's economy, which is cash-intensive. The country's anti-money laundering normative frameworks and institutions, on the other hand, are primarily concerned with the regulation of money flowing into formal financial institutions and

certain non-financial businesses and professions. Even when it comes to addressing the threat of money laundering emanating from financial institutions and certain non-financial businesses and professions, Ethiopia's anti-money laundering legal norms take a one-size-fits-all approach. That is, irrespective of sector-specific money laundering vulnerabilities; the banking sector, insurance companies, micro-financial institutions, and money transfer agents are all indebted to apply similar money laundering prevention measures. As a result, (i) unless the country's financial system is digitalized and modernized, the effect of the current Ethiopia's anti-money laundering system in preventing and suppressing money laundering stemming from the informal economy remains unlikely; or (ii) unless the country's anti-money laundering system is accustomed to Ethiopia's context and becomes highly sector-specific, the effect of the current anti-money laundering system in preventing and suppressing money laundering originating from the formal and informal economies remains unlikely. These demonstrate that the current anti-money laundering system of the country is inadequate and ineffective to address the menace of money laundering to the country's economy and national security.

*Eighth*, this study uncovers that the predicate offenses, laundering strategies, risk factors, ramifications, and anti-money laundering measures are highly symbiotic. Previous research on money laundering has focused on laundering strategies (Ping He (2010), Irwin, Choo and Liu (2012), FATF (2006, 2014, 2015, 2017, and 2018), Schott (2006), Sullivan (2015), and Unger and Hertog (2012)); anti-money laundering normative frameworks (Alldridge (2016), Biniam (2011), Borlini (2008), Duyne, Harvey and Gelemerova (2018), Levi and Reuter (2006), Reuter and Truman (2005), Stessens (2003); and anti-money laundering institutions, specifically banks, financial institutions, and FATF (Bello (2016),

Chaikin and Sharman (2009), Gleason and Gottselig (2004), Kalkidan (2020), Muller (2007). However, this research comprehensively explores the operation of money laundering as well as its countermeasures. As a result, it finds that the sources of illicit money, laundering strategies, risk factors, ramifications, and anti-money laundering measures are exceedingly intertwined. The risk factors (the political economy) have a critical role in the criminal decision-making process. Criminals decide the predicate offenses they commit and the laundering mechanism utilized, after analyzing a country's political and economic contexts—*Hedonic Calculus*. The predicate offenses, the laundering mechanisms, the context in which the crime occurred, and its ramifications on the country's economy and security, have repercussions on devising countermeasures.

## **8.2. Major Contributions**

In Ethiopia, there is a dearth of research on money laundering and its countermeasures. Thus, this study is being carried out to examine the operation of money laundering and its countermeasures in Ethiopia and to fill in knowledge gaps. The first is concerned with the study's policy contributions, while the second is concerned with the knowledge and theoretical contributions of this study. In the succeeding sub-sections, the policy and knowledge contributions of this study is presented.

### ***Policy contributions***

The empirical findings of this study demonstrated that Ethiopia's present anti-money laundering measures (both normative frameworks and institutions) have strategic deficiencies. The legal norms of the country have inadequacies in describing the concept of money laundering and ancillary offenses, determining the jurisdictions between the federal and regional governments, and among competent authorities and regulatory bodies.

The anti-money laundering legal norms are not tailored to Ethiopia's political economy and required the reporting entities to apply a one-size-fits-all approach. Furthermore, issues related to the tracing, freezing, and seizing of the proceeds and instruments of crime, and inter-agency and international coordination and cooperation are not adequately addressed. This normative deficiency has a spillover effect on anti-money laundering institutional operations.

The whole anti-money laundering institutions have low anti-money laundering training coverage, lack skilled and experienced human power, and weak analytical and technological capabilities to report, analyze, disseminate, investigate, prosecute the perpetrators of money laundering, and trace, freeze and seize the proceeds or instrumentalities of the predicate offenses. Report entities except the banks did not comply with the country's money laundering prevention measures. Regulatory bodies, except the National Bank of Ethiopia, did not conduct anti-money laundering compliance supervision. The law enforcement agencies have limited experience and capabilities in conducting a parallel criminal investigation, collecting financial evidence, tracing, freezing, and seizing the proceeds or instrumentalities of crime.

Therefore, this study suggests the country's anti-money laundering system will necessitate both a policy and institutional operation review that will emerge from the country's political economy, which intends to address the predicate offenses, enabling (risk) factors, laundering strategies, and ramifications of money laundering to the country's economy and security. This is the policy contribution of this study to address the menace of money laundering to Ethiopia's economy and security.

### ***Knowledge (theoretical) contributions***

This study has a theoretical contribution, to both local and universal knowledge.

In Ethiopia, there is scant research on the operation of money laundering and its countermeasures. As a result, there is a knowledge gap among practitioners, policymakers, and academics. So, this Ph.D. research is conducted to address this gap. The main empirical findings of this Ph.D. thesis including the main predicate offenses and money laundering strategies identified, the risk factors and ramifications explained, and the anti-money laundering measures discovered in this study are the contributions of this study to the local knowledge of money laundering and its countermeasures in Ethiopia.

In addition to the local knowledge, this research contributes to the universal knowledge of money laundering and its countermeasures. Globally, there is ample research on the operation of money laundering and anti-money laundering measures. However, these research highly focused on money laundering strategies, FATF, financial intelligence units, and anti-money laundering standards with a special emphasis on the compliance of financial institutions and certain non-financial businesses and professions to these standards. However, there is a research gap in the political economy explanation of money laundering and the nature of money laundering strategies. There is also a dearth of research on the adequacy/effectiveness of the domestic and international anti-money laundering measures in addressing the threat of money laundering in developing countries or cash-intensive economies. Therefore, this research fills this knowledge gap. Specifically, this research contributes the following to the universal knowledge of money laundering.

*Nature of money laundering strategies:* The nature of money laundering strategies identified in this study; being highly dynamic, symbiotic, indistinct, and highly tailored to

a country's specific political economy is one of the contributions of this study to the universal knowledge of money laundering. In this vein, the FATF (from 1998 to 2019), FATF Style regional bodies, financial intelligence units (centers), and scholars such as Chelliah & Prasad (2017), Hunter (2019), Irwin, Choo & Liu (2012), Ping He (2010), Schott (2006), Sullivan (2015), and Unger and Hertog (2012) identified different types of money laundering strategies (commonly called them typologies). However, their point of analysis is highly focused on one or two typologies and did not provide a complete picture that shows the nature of the money laundering mechanisms. Thus, this Ph.D. thesis fills this knowledge gap. Accordingly, money laundering strategies identified in this study; are highly dynamic, symbiotic, blurred, and highly tailored to a country's specific political economy.

*Political economy explanation of money laundering:* This is one of the original contributions of this research to the current understanding of money laundering. To the best of the researcher's knowledge, no previous study has looked at money laundering in terms of its risk factors—factors that existed in the political and economic systems of countries that provide appealing or deterring conditions for money laundering. As a result, by examining the contribution of Ethiopia's political economy to money laundering, this research adds to the body of knowledge on the subject. Accordingly, this study indicated that Ethiopia's political economy has a positive contribution to money laundering to thrive.

*Anti-money laundering measures and developing economics:* There is numerous research that focused on the implementation of anti-money laundering standards by financial institutions and certain non-financial businesses and professions. The role of financial intelligence units in ensuring the compliance of reporting entities to anti-money

laundering standards, collecting, analyzing, and disseminating financial intelligence is also adequately investigated. However, there is a dearth of research that analyzes the adequacy/effectiveness of both domestic and international anti-money laundering standards in combating the threat of money laundering to developing countries or countries that have a fragile financial system. Thus, this research has a vital contribution to the knowledge of anti-money laundering measures by examining the adequacy or effectiveness of anti-money laundering measures in developing countries or countries that have a cash-intensive economy. Accordingly, this study argues that even though developing countries struggling to comply with international anti-money laundering standards (the FATF 40 recommendations), these standards are both inadequate and ineffective to address the threat of money laundering in developing economies.

*The nexus between the operation of money laundering and anti-money laundering measures:* As indicated in the major conclusions sub-section of this chapter, previous research concentrated heavily on either the mechanism of money laundering or specific anti-money laundering legal norms and institutions. This study, on the other hand, provides a thorough examination of both the operation of money laundering and its countermeasures. Eventually, this adds to the current knowledge of money laundering and anti-money laundering measures by stating that ‘the predicate offenses, laundering strategies, risk factors, ramifications, and anti-money laundering measures are intertwined’. This implies that the type of predicate offenses criminals engaged in, the laundering strategies employed, the contributing factors to the growth of money laundering, and the ramifications of money laundering on a country's economy and security, all have a direct impact on developing counterstrategies.

### **8.3. Recommendation for Further Research**

This study was conducted on money laundering and its countermeasures in Ethiopia. Even though the study was geographically limited to Ethiopia, the findings of this study demonstrated that money laundering in Ethiopia has a transnational nature. The causes, laundering mechanisms, and actors involved in the laundering process have undoubtedly shown that money laundering committed in Ethiopia has a transnational element. In a nutshell, money laundering transcends Ethiopia's territory. Thus, conducting money laundering across the Horn of Africa requires further research and exploration.

This study provides some comparable outcomes. There is a comparative analysis of the Ethiopian anti-money laundering legal norms with international anti-money laundering standards. There is also a comparative analysis of the predicate offenses, laundering techniques, risk factors, and ramifications of money laundering on Ethiopia's economy and security, with other countries. It was not, however, conceived to conduct a comparative study. Therefore, one of the future research areas would be to conduct a comprehensive comparative study on the mechanisms of money laundering, political economy, and anti-money laundering measures would be one of the future research areas.

The data collected for this study was limited to institutions and individuals involved in the prevention, suppression, or research of money laundering and its countermeasures. More than half of the participants in this study are from governmental institutions. However, the voices of regular citizens, civic societies, and alleged perpetrators are not taken into account in this study. Thus, incorporating the concern of these segments of the society and examining their role for or against money laundering will be one of the future research areas.

Moreover, money laundering is a very dynamic and innovative lawless industry. After the data for this study has been collected, there are new developments in the country's political and economic system that would affect the causes and laundering mechanisms and countermeasures. This too necessitates further study.

## Endnotes

---

- <sup>1</sup> These are participation in an organized criminal group and racketeering; terrorism, including terrorism financing; trafficking in human beings and migrant smuggling; sexual exploitation, including sexual exploitation of children; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; illicit trafficking in stolen and other goods; corruption and bribery; fraud; counterfeiting currency; counterfeiting and piracy of products; environmental crime; murder, grievous bodily injury; kidnapping, illegal restraint and hostage-taking; robbery or theft; smuggling; extortion; forgery; piracy; and insider trading and market manipulation.
- <sup>2</sup> This occurs when the exporter ships fewer goods than the invoiced quantity of goods, thus misrepresenting the true value of the goods in the documentation. The effect is similar to over-invoicing.
- <sup>3</sup> The exporter ships more goods than what is invoiced, thus misrepresenting the true value of the goods in the documentation. The effect is similar to under-invoicing.
- <sup>4</sup> No goods are shipped. The fraudulent documentation generated is used to justify payment abroad.
- <sup>5</sup> Convertible (or open) virtual currency has an equivalent value in real currency and can be exchanged back-and-forth for real currency. These include Bitcoin; e-Gold; Liberty Reserve; Second Life Linden Dollars; and WebMoney. Non-convertible (or closed) virtual currency is intended to be specific to a particular virtual domain or world, and cannot be exchanged for fiat currency. Examples include Project Entropia Dollars; Q Coins; and World of Warcraft Gold.
- <sup>6</sup> All non-convertible virtual currencies are centralized, in contrast, convertible virtual currencies may be either centralized or decentralized. Centralized virtual currencies have a single administrator that controls the system. An administrator issues the currency, establishes the rules for its use, maintains a central payment ledger, and has authority to redeem the currency. Currently, the vast majority of virtual currency payment transactions involve centralized virtual currencies. Examples: E-gold, Liberty Reserve dollars/euros, Second Life “Linden dollars”, PerfectMoney, WebMoney “WM units”, and World of Warcraft gold. Decentralized virtual currencies (cryptocurrencies) are distributed, open-source, math-based peer-to-peer virtual currencies that have no central administering authority and no central monitoring or oversight. Examples: Bitcoin, LiteCoin, and Ripple.
- <sup>7</sup> Cryptography is the technique of protecting information by transforming it into an unreadable format that can only be deciphered (or decrypted) by someone who possesses a secret key.
- <sup>8</sup> A Dark Website is a hidden part of the Internet that can only be accessed through TOR–The Onion Router browser. The TOR browser encrypts the connection and ensures anonymity. Organized criminal networks navigate the Dark Web using fake identities, making it hard for law enforcement agencies to trace them.
- <sup>9</sup> FATF member countries are Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Greece, Hong Kong-China, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Portugal, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. The European Commission and the Gulf Co-operation Council are counted as members. The FATF also counts two observer countries, India, and the Republic of South Korea.
- <sup>10</sup> In 2007, Eritrea withdrew its membership, citing its border dispute and war with Ethiopia in 1998 and Ethiopia’s military intervention in Somalia in 2006. It remains absent from the Intergovernmental Authority on Development (IGAD) to this day.
- <sup>11</sup> The ESAAMLG was officially established in 1999 in Arusha, Tanzania. Currently, its membership comprises of 18 countries and a number of regional and international observers such as AUSTRAC, COMESA, Commonwealth Secretariat, East African Community, Egmont Group, FATF, IMF, SADC, United Kingdom, UN, UNODC, U.S., World Bank and World Customs Organization.
- <sup>12</sup> According to the Ethiopian Criminal Code, a person is considered a principal criminal if: (i) he personally/physically commits the crime; (ii) without performing the criminal act itself, he fully associates himself with the commission of the crime and the intended result–being a mastermind/planner and leader of the crime; and (iii) he employs an infant or a person who is mentally deficient or unaware of the circumstances, for the commission of a crime or compels another person to commit a crime.
- <sup>13</sup> This refers to the involvement of persons in the commission of a crime in the second degree. This exists either before or during the commission of the crime. A person is not considered to be a principal criminal as his participation, in this case, is less than the principal criminals’. This relates to incitement or complicity, which are also called accessories either before or during the commission of the crime.

- 
- <sup>14</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>15</sup> Interview with a FIC expert, Addis Ababa, 25 December 2019.
- <sup>16</sup> Ethiopia has conducted a national risk assessment of money laundering and financing of terrorism from 2013 to 2016. The assessment was conducted under the supervision of the National Anti-Money Laundering and Countering the Financing of Terrorism Committee. It was undertaken locally by groups representing various public and private institutions. Institutions engaged in the risk assessment include the Ministry of Foreign Affairs, Ministry of Finance and Economic Cooperation, Ministry of Trade, Ministry of Mining, Ministry of Urban Development and Construction, Ministry of Industry (Investment Agency), Ministry of Peace—the then Ministry of Federal Affairs, the National Bank of Ethiopia, National Intelligence and Security Service, the Office of Federal Attorney General, Customs Commission, Federal Ethics and Anti-Corruption Commission, Federal Police Commission, Charities and Societies Agency, the FIC, Justice and Legal Study Research Institute, Micro and Small Scale Enterprises Development Agency, bankers associations, representatives from all financial sector categories (banks, insurances, microfinance), and representatives from designated non-financial businesses and professions (law society, real estate dealers, accountants, auditors, and dealers of precious stone and metals). The risk assessment is the first of its kind for the country, which identified the major predicate offenses of money laundering that generated large amounts of illicit proceeds. The assessment also identified the threat of money laundering to Ethiopia and the vulnerability of Ethiopia to money laundering. Moreover, the assessment provides a detailed analysis of the compliance of Ethiopia with the international anti-money laundering standards.
- <sup>17</sup> These criminal activities encompass corruption, tax evasion, human trafficking, goods smuggling (contraband), illegal *hawala*, fraud, arms trafficking, counterfeiting of products, forgery, market manipulation, usury/illegal lending of money, piracy, sexual exploitation, drug trafficking, trafficking in stolen goods, counterfeiting of currency, environmental crimes, murder/grievous injury, kidnapping, extortion, breach of trust, and robbery/theft.
- <sup>18</sup> An interview with a FIC official Addis Ababa, 19 December 2019.
- <sup>19</sup> Participants of this study who come from the FIC, Federal Police, Office of Attorney General, and Customs Commission explain the predicate offenses of money laundering in Ethiopia by referring to the outcomes of the national risk assessment.
- <sup>20</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>21</sup> Interview with a FIC expert, Addis Ababa, 19 December 2019.
- <sup>22</sup> However, there are crimes without data such as piracy, sexual exploitation, trafficking in stolen goods, and extortion that have been categorized either as medium or low-level threat crimes. When data is not available about the level of occurrence of the crime, it is unclear how the level of threat of the criminal activities is determined. A participant of this study, formerly engaged in the assessment, has stated that criminal activities without data are categorized as medium and low-level threat crimes based on the perceived threat. Furthermore, under the existing international legal norms and the Ethiopian anti-trafficking in-person law, sexual exploitation is part of human trafficking. Thus, it is unclear why human trafficking and sexual exploitation are treated distinctively. The data used for the assessment was collected from the federal government institutions. Data was not collected from the nine regional states. These indicated that the national risk assessment has deficiencies in showing the whole picture of the predicate offenses of money laundering in the country. Moreover, according to the FATF standard, the national risk assessment has to be updated regularly. That is why the government of Ethiopia, specifically the Anti-money Laundering and Counter Financing of Terrorism National Committee, has taken the initiative to update it.
- <sup>23</sup> Interview with (i) a FIC expert, Addis Ababa, 19 December 2019; (ii) a Federal Police Commission investigator, Addis Ababa, 9 September 2020.
- <sup>24</sup> Interview with (i) FIC experts, Addis Ababa, 19 and 24 December 2019; (ii) a Federal Police Commission investigator, Addis Ababa, 9 September 2020.
- <sup>25</sup> Interview with FIC experts, Addis Ababa, 19 and 24 December 2019.
- <sup>26</sup> Interview with an IGAD researcher, Addis Ababa, 18 July 2020.
- <sup>27</sup> Interview with (i) a Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020; (ii) a Dashin Bank risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>28</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>29</sup> Interview with (i) a FIC expert, Addis Ababa, 24 December 2019; (ii) a Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020; (iii) a Dashin Bank risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>30</sup> Interview with a Dashin Bank risk and compliance officer, Addis Ababa, 14 August 2020.

- 
- <sup>31</sup> Interview with a Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>32</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>33</sup> Interview with a FIC analyst, Addis Ababa, 19 May 2020.
- <sup>34</sup> Trade mis-invoicing refers to a method for moving money illicitly across borders which involves the deliberate falsification of the value, volume, and/or type of commodity in an international commercial transaction of goods or services by at least one party to the transaction. It is committed to evading taxes and customs duties, claiming tax incentives, dodging capital controls, or laundering money.
- <sup>35</sup> Interview with Ethiopian Customs Commission expert, Adama, 19 May 2020.
- <sup>36</sup> Interview with Ethiopian Customs Commission's expert, Addis Ababa, 25 May 2020.
- <sup>37</sup> Ibid
- <sup>38</sup> Interviews with (i) a FIC expert, Addis Ababa, December 24, 2019; (ii) the Ethiopian Customs Commission expert, Addis Ababa, May 24, 2020.
- <sup>39</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>40</sup> Ibid
- <sup>41</sup> Ibid
- <sup>42</sup> Interview with the Ethiopian Customs Commission official, Addis Ababa, 25 May 2020.
- <sup>43</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>44</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>45</sup> Interview with the Ethiopian Customs Commission official, Addis Ababa, 26 May 2020.
- <sup>46</sup> Interview with the Ethiopian Customs Commission (i) official, and (ii) customs duties estimation expert, Addis Ababa, 27 May 2020.
- <sup>47</sup> Interview with the Ethiopian Customs Commission official, Addis Ababa, 26 May 2020.
- <sup>48</sup> Interview with the Ethiopian Customs Commission customs duties estimation expert, Addis Ababa, 27 May 2020.
- <sup>49</sup> Interview with the Ethiopian Customs Commission official, Addis Ababa, 27 May 2020.
- <sup>50</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>51</sup> Interview with (i) a FIC official, Addis Ababa, 24 December 2019; and (ii) the Ethiopian Customs Commission expert, Addis Ababa, 27 May 2020.
- <sup>52</sup> Interview with a FIC analyst, Addis Ababa, 19 December 2019.
- <sup>53</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>54</sup> Interview with the Ethiopian Customs Commission official, Adama, 19 May 2020.
- <sup>55</sup> Interview with a FIC expert that took place on 24 December 2019, in Addis Ababa.
- <sup>56</sup> Illicit financial flows and capital flight are different but overlapping concepts. Illicit financial flows refer to a set of methods and practices aimed at transferring financial capital out of a country in contravention of national or international laws. Specifically, it refers to money that is illegally earned and/or illegally utilized and illegally transferred across borders. Capital flight, however, refers to money flowing out of a country in search for investment opportunities that are both secure and likely to yield a high return on investment. This may be in response to an unfavorable event in the country of origin or in anticipation of such an event.
- <sup>57</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>58</sup> Illegal *hawala* is a popular and informal value transfer system in Ethiopia. It is not based on the movement of cash or computer network wire transfer between banks. However, it is based on the performance of a massive network of money brokers, commonly known as *hawaladars*. Illegal *hawala* operates outside of or parallel to the formal financial system.
- <sup>59</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>60</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>61</sup> Interview with (i) a FIC analyst, Addis Ababa, 24 December 2019; (ii) Office of Federal Attorney General prosecutor, Addis Ababa, 25 June 2020; and (iii) Federal Police Commission crime investigator, Addis Ababa, 16 June 2020.
- <sup>62</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>63</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>64</sup> Ibid
- <sup>65</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>66</sup> Interview with a FIC official, Addis Ababa, 24 December 2019.
- <sup>67</sup> Ibid
- <sup>68</sup> Ibid

- 
- <sup>69</sup> Ibid
- <sup>70</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>71</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>72</sup> Ibid
- <sup>73</sup> Interview with (i) a Federal Attorney General operational leader, Addis Ababa, 26 June 2020; (ii) a Federal Police Commission official, Addis Ababa, 16 June 2020.
- <sup>74</sup> Interview with (i) a FIC expert, Addis Ababa, 24 December 2019; (ii) a Federal Attorney General Prosecutor, Addis Ababa, 15 June 2020.
- <sup>75</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>76</sup> Interview with a Federal Attorney General Prosecutor, Addis Ababa, 15 June 2020.
- <sup>77</sup> Interview with (i) Office of Federal Attorney-General operational leader, Addis Ababa, 26 June 2020; (ii) Ethiopian Federal Police Commission operational leader, Addis Ababa, 16 June 2020.
- <sup>78</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>79</sup> Interview with Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>80</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>81</sup> Interview with Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>82</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>83</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>84</sup> Interview with (i) the Ethiopian Customs Commission operational manager, Addis Ababa, 19 May 2020; and (ii) a FIC expert, Addis Ababa, 24 December 2019.
- <sup>85</sup> Interview with (i) IGAD researcher, Addis Ababa, 20 September 2020; (ii) a FIC expert, Addis Ababa, 24 December 2019.
- <sup>86</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>87</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>88</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>89</sup> Ibid
- <sup>90</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>91</sup> Interview with IGAD researcher, Addis Ababa, 18 July 2020.
- <sup>92</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>93</sup> Interview with the Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020.
- <sup>94</sup> Interview with an anti-money laundering/countering the financing of terrorism freelance trainer, Addis Ababa, 7 September 2020.
- <sup>95</sup> Interview with the Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020.
- <sup>96</sup> Interview with an anti-money laundering/countering the financing of terrorism freelance trainer, Addis Ababa, 7 September 2020.
- <sup>97</sup> Interview with a FIC expert, Addis Ababa, 25 December 2019.
- <sup>98</sup> Interview with the National Bank of Ethiopia expert, Addis Ababa, 9 July 2020.
- <sup>99</sup> AchiversKlub School of Cryptocurrency was started in 2017. The Klub gives classroom-based or online courses on cryptocurrency, to introduce the technology that is widely used in Ethiopia as an alternative to fiat currency.
- <sup>100</sup> Interview with (i) a FIC expert, Addis Ababa, 24 December 2019; (ii) a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>101</sup> The FATF, like the Palermo Convention, stated that “countries should apply the crime of money laundering to all serious offenses, with a view to including the widest range of predicate offenses”. Nevertheless, the FATF, in its interpretative note to Recommendation No. 3, provides three options when countries apply a threshold approach. According to the FATF, the predicate offenses of money laundering should include either (i) at a minimum, all offenses that fall within the category of serious offenses under their national law, (ii) offenses that are punishable by a maximum penalty of more than one year’s imprisonment, or (iii) for those countries that have a minimum threshold for offenses in their legal system, all offenses that are punished by a minimum penalty of more than six months imprisonment. Thus, Ethiopia is following the second approach of the FATF.
- <sup>102</sup> The UN Convention against Transnational Organized Crime–Palermo Convention provides that countries include, at least, all serious crimes which are punishable by a maximum deprivation of liberty of four years, or more serious penalties as predicate offenses of money laundering.

- 
- <sup>103</sup> The FATF has designated 20 offenses as predicate offenses of money laundering. These are participation in an organized criminal group and racketeering; terrorism, including terrorism financing; trafficking in human beings and migrant smuggling; sexual exploitation, including sexual exploitation of children; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; illicit trafficking in stolen and other goods; corruption and bribery; fraud; counterfeiting currency; counterfeiting and piracy of products; environmental crime; murder, grievous bodily injury; kidnapping, illegal restraint and hostage-taking; robbery or theft; smuggling; extortion; forgery; piracy; and insider trading and market manipulation.
- <sup>104</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>105</sup> Interview with (i) a FIC senior expert, Addis Ababa, 24 December 2019; (ii) a FIC analyst, Addis Ababa, 19 December 2019.
- <sup>106</sup> Interview with the National Bank of Ethiopia senior economist, Addis Ababa, 19 July 2020.
- <sup>107</sup> Interview with the National Bank of Ethiopia senior economist, Addis Ababa, 9 July 9, 2020.
- <sup>108</sup> According to the World Bank Findex survey of 2017, the majority of adults (15 +) are excluded from the services provided by the formal financial sector and use the informal financial system. 35% of adults (15+) reported that they have an account on banks or other financial institutions, but only 26% reported saving at a financial institution. Similarly, 11% of adults (15+) reported that they borrowed money from financial institutions within the last four years. The gender gap is widening—41% of men have an account, compared to 29% of women. However, there is a progress on the number of people that use financial institutions.
- <sup>109</sup> Interview with the National Bank of Ethiopia senior economist, Addis Ababa, 9 July 2020.
- <sup>110</sup> Ibid
- <sup>111</sup> Interview with the Commercial Bank of Ethiopia senior customer officer, Addis Ababa, 12 August 2020.
- <sup>112</sup> Interview with a FIC analyst, Addis Ababa, 19 December 2019.
- <sup>113</sup> Ibid
- <sup>114</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>115</sup> Interview with (i) a FIC senior expert, Addis Ababa, 24 December 2019; (ii) a FIC analyst, Addis Ababa, 19 December 2019.
- <sup>116</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>117</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>118</sup> Ibid
- <sup>119</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 15 June 2020.
- <sup>120</sup> Ibid
- <sup>121</sup> Interview with Office Federal Attorney General prosecutor, Addis Ababa, 25 June 2020.
- <sup>122</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>123</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 16 June 2020.
- <sup>124</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>125</sup> Interview with Office Federal Attorney General prosecutor, Addis Ababa, 14 June 2020.
- <sup>126</sup> Interview with IGAD researcher, Addis Ababa, 18 July 2020.
- <sup>127</sup> Ibid
- <sup>128</sup> Interview with the Ethiopian Customs Commission expert, Addis Ababa, 19 May 2020.
- <sup>129</sup> Interview with IGAD researcher, Addis Ababa, 18 July 2020.
- <sup>130</sup> Interview with the Ethiopian Customs Commission custom officer, Addis Ababa, 22 May 2020.
- <sup>131</sup> Interview with the Ethiopian Customs Commission expert, Addis Ababa, 25 May 2020.
- <sup>132</sup> Interview with the National Bank of Ethiopia operational leader, Addis Ababa 10 July 2020.
- <sup>133</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>134</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>135</sup> Interview with Ethiopia Bankers Association senior expert, Addis Ababa, 10 August 2020.
- <sup>136</sup> Interview with (i) Global Center on Cooperative Security senior analyst, Washington DC, 20 February 2020; (ii) Ethiopia Bankers Association senior expert, Addis Ababa, 10 August 2020.
- <sup>137</sup> Interview with (i) a lawyer, Addis Ababa, 17 July 2020; (ii) a real estate dealer, Addis Ababa, 18 July 2020.
- <sup>138</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>139</sup> Interview with a Dashin Bank business manager, Addis Ababa, 11 August 2020.
- <sup>140</sup> According to the directive, banks in allocating foreign currency shall give priority to (i) imports of essential goods, i.e., fuel, fertilizer and other agricultural inputs, pharmaceutical products, factories' requests for procurement of machinery, equipment, spare parts, raw materials, and accessories; imports of

- 
- nutritious food for babies; (ii) payments on imports of freight and transit services; (iii) payments authorized by the National Bank of Ethiopia such as foreign loans, supplier credits, interest, profit, dividends, and excess sales of foreign airlines; and (iv) salary transfers of foreign employees.
- <sup>141</sup> Interview with (i) a FIC analyst, Addis Ababa, 25 December 2019; (ii) the Ethiopian Federal Police Commission operational leader, Addis Ababa, 16 June 2020.
- <sup>142</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>143</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>144</sup> Interview with (i) a FIC analyst, Addis Ababa, 25 December 2019; (ii) the Ethiopian Federal Police Commission operational leader, Addis Ababa, 16 June 2020.
- <sup>145</sup> Interview with a FIC expert, Addis Ababa, 24 December 2019.
- <sup>146</sup> Interview with a FIC expert, Addis Ababa, 25 December 2019.
- <sup>147</sup> Interview with (i) Global Initiative against Transnational Organized Crime senior analyst, virtually, 24 March 2020; (ii) IGAD researcher, Addis Ababa, 18 July 2020.
- <sup>148</sup> Interview with IGAD researcher, Addis Ababa, 18 July 2020
- <sup>149</sup> Interview with an Ethiopian Federal Police Commission operational leader, Addis Ababa, 16 June 2020.
- <sup>150</sup> Interview with Ethiopian Federal Police Commission official and operational leader, Addis Ababa, 16 and 17 June 2020.
- <sup>151</sup> Interview with (i) Global Initiative against Transnational Organized Crime senior analyst, virtually, 24 March 2020; (ii) IGAD researcher, Addis Ababa, 18 July, 2020.
- <sup>152</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 19 May 2020.
- <sup>153</sup> Interview with (i) a Global Initiative against Transnational Organized Crime senior analyst, virtually, 24 March 2020; (ii) IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>154</sup> Interview with (i) a Global Initiative against Transnational Organized Crime senior analyst, virtually, 24 March 2020; (ii) IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>155</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>156</sup> Ibid
- <sup>157</sup> Interview with the National Bank of Ethiopia senior economist, Addis Ababa, 18 July 2020.
- <sup>158</sup> Interview with IGAD researcher, Addis Ababa, 17 July 2020.
- <sup>159</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 15 June 2020.
- <sup>160</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>161</sup> Interview with IGAD researcher, Addis Ababa, 17 July 2020.
- <sup>162</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>163</sup> Ibid
- <sup>164</sup> Interview with a Global Initiative against Transnational Organized Crime senior analyst, virtually, 24 March 2020.
- <sup>165</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>166</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>167</sup> Interview with the National Bank of Ethiopia senior economist, Addis Ababa, 18 July 2020.
- <sup>168</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>169</sup> Interview with a FIC senior financial intelligence analyst, Addis Ababa, 18 July 2020.
- <sup>170</sup> Interview with a FIC typology studies expert, Addis Ababa, 31 December 2019.
- <sup>171</sup> Ibid
- <sup>172</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 25 May 2020.
- <sup>173</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>174</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>175</sup> Ibid
- <sup>176</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>177</sup> Ibid
- <sup>178</sup> Interviews with (i) the National Bank of Ethiopia senior economist, Addis Ababa, 18 July 2020; (ii) a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>179</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>180</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>181</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>182</sup> Ibid
- <sup>183</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 19 May 2020.
- <sup>184</sup> Interview with the Federal Ethics and Anti-corruption Commission official, Addis Ababa, 1 July 2020.

- 
- <sup>185</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>186</sup> Ibid
- <sup>187</sup> Interview with the Federal Ethics and Anti-corruption Commission corruption prevention expert, Addis Ababa, 1 July 2020.
- <sup>188</sup> Cronyism refers to the infiltration of formal state institutions as well as the legitimate economy through corruption.
- <sup>189</sup> Interview with the Federal Ethics and Anti-corruption Commission official, Addis Ababa, 1 July 2020.
- <sup>190</sup> Interview with a FIC senior financial intelligence analyst, Addis Ababa, 18 July 2020.
- <sup>191</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>192</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>193</sup> Interview with the Ethiopian Federal Police Commission operational leader, Addis Ababa, 17 June 2020.
- <sup>194</sup> Interview with the Ethiopian Customs Commission customs officer, Addis Ababa, 22 May 2020.
- <sup>195</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>196</sup> Coercion occurs when a state is pressured to implement the normative frameworks favored by other states, international organizations or private actors through physical force and the manipulation of economic costs or benefits.
- <sup>197</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>198</sup> Ibid
- <sup>199</sup> Amharic Language is the working language of the Federal Government of Ethiopia.
- <sup>200</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>201</sup> Ibid
- <sup>202</sup> Ibid
- <sup>203</sup> Ibid
- <sup>204</sup> Ibid
- <sup>205</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>206</sup> Ibid
- <sup>207</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>208</sup> Interview with an anti-money laundering/countering the financing of terrorism freelance trainer, Addis Ababa, 7 September 2020.
- <sup>209</sup> State socialization appears to be one of the most accepted mechanisms for the international diffusion of norms. It has operated mainly through normative persuasion. Normative persuasion often takes place through dynamic communication in international institutions when agents present arguments and try to convince each other of the rightness of the norms. This process can occur in sites of mutual evaluation, at the plenary meetings of the FATF and the FSRBs, and at conferences, seminars, workshop, and training sessions.
- <sup>210</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>211</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>212</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>213</sup> Ibid
- <sup>214</sup> Interview with a FIC typology studies expert, Addis Ababa, 31 December 2019.
- <sup>215</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>216</sup> Interview with a FIC operational leader, Addis Ababa, 24 December 2019.
- <sup>217</sup> Interview with Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020.
- <sup>218</sup> Interview with the National Bank of Ethiopia senior supervision officer, Addis Ababa, 21 September 2020.
- <sup>219</sup> Interview with the Federal Ethics and Anti-corruption Commission official, Addis Ababa, 1 July 2020.
- <sup>220</sup> The immunity *ratione personae* is an immunity attached to the office or status of the official not to the act of the official. This type of immunity is also called personal immunity. Personal immunity is not based on the nature of the act but on the official status of the person concerned. It is available only for the highest State officials who are the most important guarantors of a State's internal stability and external reliability, most notably to the Head of State, Head of Government and Minister for Foreign Affairs, while in office. It is temporary; it lasts only for as long as the person is serving in that representative capacity. It assures absolute inviolability; there is no exception based on the seriousness of the alleged crime, or whether the acts were private or official, since the rationale is unconnected to the nature of the act.
- <sup>221</sup> Every State official who has acted on behalf of the State in the exercise of his or her functions is immune from the jurisdiction of other States. Such acts are imputable only to the State and immunity *ratione*

---

*materiae* is a mechanism for diverting responsibility to the State. This kind of immunity is called functional immunity. Functional immunity is derived from the principle of *Act of State doctrine* and applies to all State agents discharging their official duties. In principle, an individual performing act on behalf of a sovereign State may not be called to account for any violations of international law he may have committed while acting in an official function. The act is attributable to the State and only the State may be held responsible at the international level. The consequence is that a public official cannot be held accountable for acts performed in the exercise of an official capacity, as these are to be referred to the State itself. Functional immunity is open to any person exercising official functions, ranging from a former Head of State to the lowest public officials. It attaches to a comparatively large class of officials—all who carry out duties for the State. It covers official acts of any *de jure* and *de facto* State agents. It does not provide complete protection of the person since the custodial authorities may inquire into whether the disputed acts were or weren't official acts. Moreover, it does not cease at the end of the discharge of official functions by the State agent (the reason being that the act is legally attributed to the State, hence any legal liability for it may only be incurred by the State).

<sup>222</sup> Interview with (i) the Federal Ethics and Anti-corruption Commission legal expert, Addis Ababa, 2 July 2020; (ii) a FIC legal expert, Addis Ababa, 24 December 2019.

<sup>223</sup> Interview with the Federal Ethics and Anti-corruption Commission legal expert, Addis Ababa, 2 July 2020.

<sup>224</sup> Ibid

<sup>225</sup> Interview with (i) the Federal Ethics and Anti-corruption Commission official, Addis Ababa, 1 July 2020; (ii) the Federal Ethics and Anti-corruption Commission corruption prevention expert, Addis Ababa, 1 July 2020.

<sup>226</sup> Interview with the Federal Ethics and Anti-corruption Commission legal expert, Addis Ababa, 2 July 2020.

<sup>227</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.

<sup>228</sup> Financial institutions and DNFBPs shall, in the course of their business, identify and report to the FIC, any suspicious transactions with respect to proceeds derived from the predicate offenses of participation in an organized criminal group and racketeering; terrorism, including terrorist financing; trafficking in human beings and migrant smuggling; sexual exploitation including sexual exploitation of children; illicit trafficking in narcotic drugs and psychotropic substances; illicit arms trafficking; illicit trafficking in stolen and other goods; corruption and bribery; fraud; counterfeiting currency; counterfeiting and piracy of products; environmental crime; homicide, grievous bodily injury; kidnapping, illegal restraint and hostage-taking; robbery or theft; smuggling; (including in relation to customs and excise duties and taxes); tax crimes (related to direct taxes and indirect taxes); extortion; forgery; piracy; insider trading and market manipulation; and any other offense specified in any law of Ethiopia, capable of generating proceeds of crime and punishable at least with simple imprisonment for one year.

<sup>229</sup> Interview with a FIC operational leader, Addis Ababa, 24 December 2019.

<sup>230</sup> The Ethiopian anti-money laundering law has defined bearer negotiable instrument as “any monetary instruments such as cheques, traveler’s cheques, promissory notes and money orders, that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that title thereto passes upon delivery, and includes incomplete monetary instrument which is signed but with the payee’s name omitted.”

<sup>231</sup> Interview with a FIC operational leader, Addis Ababa, 26 December 2019.

<sup>232</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.

<sup>233</sup> Ibid

<sup>234</sup> Interview with a FIC supervision officer, Addis Ababa, 23 December 2019.

<sup>235</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.

<sup>236</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.

<sup>237</sup> Preliminary inquiry is a judicial power by which investigation and recording of evidence in serious offence is conducted.

<sup>238</sup> The prosecutor cannot refuse to institute proceeding when there is insufficiency of evidence, no possibility of finding the accused person and the case is one, which trial in absentia is impossible, and where the prosecution is barred by period of limitation or the offense is made the subject of pardon or amnesty.

<sup>239</sup> Aggravated circumstances encompasses when the predicate offence carries a penalty of imprisonment exceeding the punishment provide for money laundering; if the offence is perpetrated in the pursuit of a trade or occupation; if the offence is perpetrated as part of the activities of an organized criminal group; if

- 
- the amount of fund or property laundered is more than Birr 10,000,000; if the purpose is to make profit; or if the purpose is promoting the carrying on of further criminal activity.
- <sup>240</sup> Interview with (i) a FIC legal expert, Addis Ababa, 19 December 2019; (ii) a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>241</sup> The provisional measures of confiscation embrace identifying, tracing, freezing, or seizing the proceeds or instrumentalities of crime.
- <sup>242</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>243</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>244</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>245</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>246</sup> Interview with (i) the National Bank of Ethiopia senior expert, Addis Ababa, 8 July 2020; (ii) a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>247</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>248</sup> Interview with (i) the National Bank of Ethiopia senior expert, Addis Ababa, 9 July 2020; (ii) Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020.
- <sup>249</sup> Financial inclusion is about providing access to an adequate range of safe, convenient, and affordable financial services to disadvantaged and other vulnerable groups, including low income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector. It is about making a broader range of financial services available to individuals who currently only have access to basic financial products. Financial inclusion can also be defined as ensuring access to financial services at an affordable cost in a fair and transparent manner (FATF, 2011c, p. 12).
- <sup>250</sup> Interview with (i) Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020; (ii) Dashin Bank risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>251</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 25 May 2020.
- <sup>252</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 15 June 2020.
- <sup>253</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 25 May 2020.
- <sup>254</sup> Ibid
- <sup>255</sup> Interview with the National Bank of Ethiopia operational leader, Addis Ababa, 10 July 2020.
- <sup>256</sup> Interview with the Office of Federal Attorney-General prosecutor, Addis Ababa, 24 June 2020.
- <sup>257</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>258</sup> Interview with (i) the Office of Federal Attorney-General prosecutor, Addis Ababa, 25 June 2020; (ii) the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>259</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>260</sup> Interview with the Office of Federal Attorney-General prosecutor, Addis Ababa, 25 June 2020.
- <sup>261</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>262</sup> Ibid
- <sup>263</sup> Ibid
- <sup>264</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>265</sup> Ibid
- <sup>266</sup> Ibid
- <sup>267</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 16 June 2020.
- <sup>268</sup> Interview with (i) a FIC legal expert, Addis Ababa, 25 December 2019; (ii) the Office of Federal Attorney General prosecutor, Addis Ababa, 25 June 2020.
- <sup>269</sup> Interview with (i) a FIC senior expert, Addis Ababa, 24 December 2019; (ii) the National Bank of Ethiopia senior legal expert, Addis Ababa, 9 July 2020; (iii) the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>270</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>271</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 25 June 2020; (ii) a FIC official, Addis Ababa, 19 December 2019.
- <sup>272</sup> Interview with a FIC legal expert, Addis Ababa, 19 December 2019.
- <sup>273</sup> Interview with the National Bank of Ethiopia senior legal expert, Addis Ababa, 9 July 2020.
- <sup>274</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>275</sup> Ibid
- <sup>276</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>277</sup> Interview with the Wegagen Bank risk and compliance officer, Addis Ababa, 19 August 2020.

- 
- <sup>278</sup> Interview with (i) the Wegagen Bank risk and compliance officer, Addis Ababa, 19 August 2020; (ii) Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 17 August 2020; (iii) a FIC legal expert, Addis Ababa, 19 December 2019.
- <sup>279</sup> Interview with an anti-money laundering/countering the financing of terrorism freelance trainer, Addis Ababa, 7 September 2020.
- <sup>280</sup> Interview with Ethiopia Bankers Association senior officer, Addis Ababa, 10 August 2020.
- <sup>281</sup> Interview with (i) Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020; (ii) the National Bank of Ethiopia senior supervision officer, Addis Ababa, 21 September 2020.
- <sup>282</sup> Interview with the Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 18 August 2020.
- <sup>283</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>284</sup> Interview with the National Bank of Ethiopia senior supervision officer, Addis Ababa, 21 September 2020.
- <sup>285</sup> Interview with Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 18 August 2020.
- <sup>286</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>287</sup> Interview with Ethiopia Bankers Association senior officer, Addis Ababa, 10 August 2020.
- <sup>288</sup> Ibid
- <sup>289</sup> Interview with (i) Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020; (ii) Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020; (iii) Dashin Bank risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>290</sup> Interview with Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020.
- <sup>291</sup> Ibid
- <sup>292</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>293</sup> Interview with Tsehay Insurance risk and compliance officer, Addis Ababa, 11 August 2020.
- <sup>294</sup> Interview with the Ethiopian Insurance Corporation risk and compliance officer, Addis Ababa, 14 August 2020.
- <sup>295</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>296</sup> Interview with (i) Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020; (ii) Commercial Bank of Ethiopia risk and compliance officer, Addis Ababa, 10 August 2020; (iii) Tsehay Insurance risk and compliance officer, Addis Ababa, 11 August 2020.
- <sup>297</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>298</sup> Interview with a precious metal and stone dealer, Addis Ababa, 27 May 2020.
- <sup>299</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>300</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 11 May 2020.
- <sup>301</sup> Ibid
- <sup>302</sup> Ibid
- <sup>303</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>304</sup> Interview with a real estate broker, Addis Ababa, 19 June 2020.
- <sup>305</sup> Interview with (i) a FIC official, Addis Ababa, 19 December 2019; (ii) a FIC legal expert, Addis Ababa, 8 September 2020.
- <sup>306</sup> Interview with a FIC legal expert, Addis Ababa, 8 September 2020.
- <sup>307</sup> Interview with a FIC typology studies expert, Addis Ababa, 31 December 2019.
- <sup>308</sup> Ibid
- <sup>309</sup> Interview with (i) a FIC typology studies expert, Addis Ababa, 31 December 2019; (ii) a FIC supervision officer, Addis Ababa, 23 December 2019.
- <sup>310</sup> Interview with a FIC supervision officer, Addis Ababa, 23 December 2019.
- <sup>311</sup> Ibid
- <sup>312</sup> Interview with the National Bank of Ethiopia senior supervision officer, Addis Ababa, 10 July 2020.
- <sup>313</sup> Ibid
- <sup>314</sup> Interview with the National Bank of Ethiopia supervision officer, Addis Ababa, 7 September 2020.
- <sup>315</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>316</sup> Ibid
- <sup>317</sup> Interview with the National Bank of Ethiopia senior supervision officer, Addis Ababa, 10 July 2020.
- <sup>318</sup> Interview with a FIC supervision officer, Addis Ababa, 23 December 2019.
- <sup>319</sup> Ibid
- <sup>320</sup> Interview with the National Bank of Ethiopia senior supervision officer, Addis Ababa, 10 July 2020.

- 
- <sup>321</sup> Interview with (i) a FIC official, Addis Ababa, 19 December 2019; (ii) IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>322</sup> Initially, the Center was responsible to the National Bank of Ethiopia, and then to the Prime Minister Office. However, from October 2018 onwards, the accountability of the FIC shifted from the Office of the Prime Minister to the Ministry of Peace—a new ministerial office that consists of all law enforcement agencies of the federal government including the Federal Police Commission, the National Intelligence and Security Service, the Information Network Security Agency, and the FIC.
- <sup>323</sup> In the international anti-money laundering literature, specifically according to FATF, typology refers to the mechanisms, techniques, and strategies criminals employed to launder the proceeds of crime.
- <sup>324</sup> Interview with (i) a FIC official, Addis Ababa, 19 December 2019; (ii) IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>325</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>326</sup> Ibid
- <sup>327</sup> Ibid
- <sup>328</sup> Interview with a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>329</sup> Interview with an anti-money laundering/countering the financing of terrorism freelance trainer, Addis Ababa, 7 September 2020.
- <sup>330</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>331</sup> Ibid
- <sup>332</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>333</sup> Ibid
- <sup>334</sup> Interview with a FIC senior analyst, Addis Ababa, 24 December 2019.
- <sup>335</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>336</sup> Interview with a FIC operational leader, Addis Ababa, 24 December 2019.
- <sup>337</sup> Ibid
- <sup>338</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>339</sup> Ibid
- <sup>340</sup> Link analysis software saves investigators time and energy by allowing them to visualize the hidden relationships between seemingly disparate entities and helps investigators to “follow the money” by visualizing money flows.
- <sup>341</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>342</sup> Interview with a FIC typology studies expert, Addis Ababa, 31 December 2019.
- <sup>343</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>344</sup> Ibid
- <sup>345</sup> Interview with a FIC operational leader, Addis Ababa, 26 December 2019.
- <sup>346</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>347</sup> Ibid
- <sup>348</sup> Interview with a FIC operational leader, Addis Ababa, 26 December 2019.
- <sup>349</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>350</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 25 May 2020.
- <sup>351</sup> Interview with a FIC operational leader, Addis Ababa, 26 December 2019.
- <sup>352</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>353</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 26 June 2020; (ii) the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>354</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>355</sup> Ibid
- <sup>356</sup> Ibid
- <sup>357</sup> Ibid
- <sup>358</sup> Interview with the Ethiopian Federal Police Commission crimes investigator, Addis Ababa, 17 June 2020.
- <sup>359</sup> Interview with the Office of Federal Attorney General prosecutor, Addis Ababa, 15 June 2020.
- <sup>360</sup> Ibid
- <sup>361</sup> Ibid
- <sup>362</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 26 June 2020; (ii) the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 19 September 2020.
- <sup>363</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 26 June 2020; (ii) a FIC analyst, Addis Ababa, 25 December 2019.

- 
- <sup>364</sup> Interview with IGAD senior researcher, Addis Ababa, 18 July 2020.
- <sup>365</sup> Ibid
- <sup>366</sup> Ibid
- <sup>367</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2020.
- <sup>368</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 15 June 2020.
- <sup>369</sup> Interview with IGAD researcher, Addis Ababa, 20 September 2020.
- <sup>370</sup> Ibid
- <sup>371</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>372</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>373</sup> Interview with the Institute for Security Studies researcher, virtually, 24 March 2020.
- <sup>374</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>375</sup> Ibid
- <sup>376</sup> The name implies, the unite is accountable for the investigation and prosecution of illicit assets. However, the administration of illicit asset is not seriously taken.
- <sup>377</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>378</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>379</sup> Interview with IGAD researcher, Addis Ababa, 20 September 2020.
- <sup>380</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 26 June 2020; (ii) a FIC analyst, Addis Ababa, 25 December 2019; (iii) the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>381</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020.
- <sup>382</sup> Ibid
- <sup>383</sup> Interview with (i) the Office of Federal Attorney General prosecutor, Addis Ababa, 26 June 2020; (ii) a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>384</sup> Interview with (i) the Ethiopian Federal Police Commission official, Addis Ababa, 17 June 2020; (ii) a FIC analyst, Addis Ababa, 25 December 2019.
- <sup>385</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>386</sup> Interview with a FIC legal expert, Addis Ababa, 25 December 2019.
- <sup>387</sup> Interview with a FIC official, Addis Ababa, 19 December 2019.
- <sup>388</sup> Ibid
- <sup>389</sup> Interview with the Office of Federal Attorney General operational leader, Addis Ababa, 25 June 2020.
- <sup>390</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>391</sup> Interview with (i) the Ethiopian Customs Commission senior expert, Addis Ababa, 19 May 2020; (ii) a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>392</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>393</sup> Interview with (i) the National Bank of Ethiopia senior legal expert, Addis Ababa, 9 July 2020; (ii) the National Bank of Ethiopia financial institutions supervision expert, Addis Ababa, 8 July 2020.
- <sup>394</sup> Interview with the Ethiopian Customs Commission senior expert, Addis Ababa, 19 May 2020.
- <sup>395</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>396</sup> Interview with the Ethiopian Federal Police Commission official, Addis Ababa, 16 June 2020.
- <sup>397</sup> Ibid
- <sup>398</sup> Interview with the Ethiopian Federal Police Commission crime investigator, Addis Ababa, 9 September 2020.
- <sup>399</sup> Interview with (i) the Ethiopian Federal Police Commission official, Addis Ababa, 16 June 2020; (ii) a FIC analyst, Addis Ababa, 16 April 2020.
- <sup>400</sup> Interview with a FIC analyst, Addis Ababa, 24 December 2019.
- <sup>401</sup> Interview with a FIC legal expert, Addis Ababa, 19 December 2019.
- <sup>402</sup> Interview with a FIC senior expert, Addis Ababa, 24 December 2019.
- <sup>403</sup> Interview with the Office of Federal Attorney-General operational leader, Addis Ababa, 25 June 2020.
- <sup>404</sup> Interview with (i) a FIC legal expert, Addis Ababa, 19 December 2019; (ii) a FIC analyst, Addis Ababa, 15 December 2019.
- <sup>405</sup> Interview with (i) Awash Bank risk and compliance officer, Addis Ababa, 25 August 2020; (ii) Federal Police Commission crime investigator, Addis Ababa, 15 June 2020.

## References

- Aaron, M. (April 16, 2018). Ethiopian foreign exchange shortage will last years- new premier. *Reuters*, retrieved April 6, 2021, from <https://www.reuters.com/article/ethiopia-economy-idUSL8N1RT61K>
- Abadinsky, H. (2010). *Organized Crime* (9<sup>th</sup> ed.). Belmont, Mail California: Wadsworth.
- Abebe W. G. (December 10, 2020). Ethiopia: Keeping Money Laundering and Capital Flight in Check. *AllAfrica*, retrieved October 22, 2021, from <https://allafrica.com/stories/202012110268.html>
- Abera, J. (2000). *An Introduction to the Legal History of Ethiopia: 1434-1974*. Lit Verslag Münster, Hamburg, London.
- Addis G. T. (September 14, 2021). Ethiopia demonetizes Banknotes to Salvage Economy. *Anadolu Agency*, retrieved August 27, 2021, from <https://www.aa.com.tr/en/africa/ethiopia-demonetizes-banknotes-to-salvage-economy/1972881>
- Accomazzo, S. (2012). Theoretical Perspectives on the Political Economy of Violence. *Journal of Human Behavior in the Social Environment*, 22(5), 591-606.
- Accounting & Auditing Board of Ethiopia. (n.d). List of Registered Authorized Accounting Firm. Retrieved August 05, 2021, from <http://www.aabe.gov.et/registered/list-registered-cu-2/?fbclid=I>
- Afande, F. (2015). Use of Regulatory Policies in the Fight against Money Laundering in Kenya. *Public Policy and Administration Research*, 5(3), 149-193.

- African Union (AU). (2003). African Union Convention on Preventing and Combating of Corruption. Retrieved August 27, 2021, from [https://au.int/sites/default/files/treaties/36382-treaty-0028 -  
\\_african\\_union\\_convention\\_on\\_preventing\\_and\\_combating\\_corruption\\_e.pdf](https://au.int/sites/default/files/treaties/36382-treaty-0028_-_african_union_convention_on_preventing_and_combating_corruption_e.pdf)
- AU. (2015). Africa's Development Agenda of 2063. Retrieved August 27, 2021, from [https://au.int/sites/default/files/documents/36204-doc-  
agenda2063\\_cover\\_page.jpg](https://au.int/sites/default/files/documents/36204-doc-agenda2063_cover_page.jpg)
- Albanese, S. J. (2015). *Organized Crime: From the Mob to Transnational Organized Crime*. Anderson Publishing, MA, USA.
- Albrecht, C., Duffin, M. K., Hawkins, S. and Rocha, M. V. (2019). The Use of Cryptocurrencies in the Money Laundering Process. *Journal of Money Laundering Control*, 22 (2), 210-216, <https://doi.org/10.1108/JMLC-12-2017-0074>
- Alex De Waal. (2015). *The Real Politics of the Horn of Africa: Money War and the Business of Power*. Cambridge: Polity Press.
- Alfa Shaban, A. R. (November 01, 2017). Ethiopia Moves to 'Arrest' Smuggling of Foreign Currencies via Main Airport. Africa News. *Africa news*, retrieved July 24, 2019, from [https://www.africanews.com/2017/11/01/ethiopia-moves-to-arrest-  
smuggling-of-foreign-currencies-via-main-airport//](https://www.africanews.com/2017/11/01/ethiopia-moves-to-arrest-smuggling-of-foreign-currencies-via-main-airport//)
- Alhosani, W. (2016). *Anti-Money Laundering: A Comparative and Critical Analysis of the UK and UAE's Financial Intelligence Units*. London, UK: Palgrave Macmillan.
- Alldrige, P. (2008). Money Laundering and Globalization. *Journal of Law and Society*, 35(4), 437-463.

- Alldrige, P. (2016). *What Went Wrong with Money Laundering Law?* London: Palgrave Macmillan.
- Aluko, A. and Bagheri, M. (2012). The Impact of Money Laundering on Economic and Financial Stability and on Political Development in Developing Countries: The Case of Nigeria. *Journal of Money Laundering Control*, 15(4), 442–457.
- APA News. (May 30, 2019). Ethiopia launches operations to control money laundering, terrorism. Retrieved October 22, 2021, from <http://apanews.net/en/news/ethiopia-launches-operations-to-control-money-laundering-terrorism>
- Arnone, M. and Borlini, L. (2010). International Anti-Money Laundering Programs (Empirical Assessment and Issues in Criminal Regulation). *Journal of Money Laundering Control*, 13(3), 226-271.
- Asrat S. (February 27, 2016). Trouble in paradise: Rent-seeking threatening the Ethiopian developmental state. *The reporter Ethiopia*, retrieved August 24, 2021, from <https://www.thereporterethiopia.com/content/trouble-paradise-rent-seeking-threatening-ethiopian-developmental-state>
- Ayele, G. (May 9, 2016). *Rush for the Exits: Why is Ethiopia's Capital Flight Accelerating?* *Addis Standard*, retrieved January 03, 2018, from <http://addisstandard.com/rush-for-the-exits-why-is-ethiopias-capital-flight-accelerating/>
- Basel AML Index. (2021). *Ranking Money Laundering and Terrorist Financing Risks around the World* (10<sup>th</sup> Public Edition). Retrieved September 18, 2021, from [https://baselgovernance.org/sites/default/files/2021-09/Basel\\_AML\\_Index\\_2021\\_10th%20Edition.pdf](https://baselgovernance.org/sites/default/files/2021-09/Basel_AML_Index_2021_10th%20Edition.pdf)

- BBC Amharic. (November 02, 2018). ሕገወጥ የጦር መሳሪያ ዝውውር መብራከት ምንን ያመለክታል?  
Retrieved February 11, 2019, from <https://www.bbc.com/amharic/news-46078579>
- Befekadu W. G. (May 21, 2013). Ethiopia: EPRDF, Developmental State, and Rent-Seeking. Retrieved March 28, 2021, from <http://www.meleszenawi.com/ethiopia-eprdf-developmental-state-and-rent-seeking/>
- Bello, U. A. (2016). *Improving Anti-Money Laundering Compliance: Self-Protecting Theory and Money Laundering Reporting Officers*. Palgrave Macmillan.
- Berouk, M. (2011). The Horn of Africa Security Complex. In *Regional Security in the Post-Cold War Horn of Africa* (pp. 1-29). Institute for Security Studies.
- Biniam, S. (2011). *Money Laundering and Countermeasures: A Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector*. [Unpublished MA thesis]. Addis Ababa University, Ethiopia.
- Birch, G. W. D. (January 10, 2021). Why Do Criminals Use Cash and Not Bitcoin? *Forbes*,  
retrieved February 23, 2021, from  
<https://www.forbes.com/sites/davidbirch/2021/01/10/why-do-criminals-use-cash-and-not-bitcoin/?sh=25224cf7a56f>
- Bokosi, K. F. and Chikumbu, T. (2015). *Tackling Illicit Financial Flows from and Within Africa* (Position Paper). African Civil Society Circle. Retrieved January 26, 2019,  
from <https://www.francophonie.org/IMG/pdf/afrodad.pdf>
- Borlini, L. (2008). Issues of the International Criminal Regulation of Money Laundering in the Context of Economic Globalization. “Paolo Baffi” Centre Research Paper Series No. 2008-34.

- Borlini, L. (2014). The Economics of Money Laundering. In Reichel, P. & Albanese, J. (Eds.), *Handbook of Transnational Crime and Justice* (pp. 227-243). Thousand Oaks, California: SAGE Publications, Inc.
- Brook, A. (May 15, 2019). Ethiopia's cannabis potential valued at USD 10 billion. *The Reporter Ethiopia*, retrieved August 2, 2021, from <https://www.thereporterethiopia.com/article/ethiopias-cannabis-potential-valued-usd-10-billion>
- Brown, D. S. (2016). Cryptocurrency and Criminality: The Bitcoin Opportunity. *The Police Journal: Theory, Practice and Principles*, 89(4), 1-13, <http://dx.doi.org/10.1177/0032258X16658927>
- Brown, S. E., Esbensen, F. and Geis, G. (2010). *Criminology: Explaining Crime and Its Context* (7<sup>th</sup> ed.). LexisNexis Group.
- Bruinsma, G., & Bernasco, W. (2004). Criminal Groups and Transnational Illegal Markets. *Crime, Law and Social Change*, 41(1), 79-94.
- Brun, J. P., Gray, L., Scott, C. & Stephenson, K. (2011). *Asset Recovery Handbook: A Guide for Practitioners*. The World Bank.
- Bunjaku, F., Gjorgieva-Trajkovska, O. & Miteva-Kacarski, E. (2017). Cryptocurrencies—Advantages and Disadvantages. *Journal of Economics*, 2 (1), 36-56.
- Butler, S. (2019). Criminal use of cryptocurrencies: a great new threat or is cash still king? *Journal of Cyber Policy*, 4 (3), 326-345, <https://doi.org/10.1080/23738871.2019.1680720>
- Byiers, B. (2017). Understanding Economic Integration and Peace and Security in IGAD. ECDPM. Retrieved January 03, 2021, from <https://ecdpm.org/wp-content/uploads/IGAD-Background-Paper-PEDRO-Political-Economy-Dynamics-Regional-Organisations-Africa-ECDPM-2017.pdf>

- Camdessus, M. (1998). Money Laundering: The Importance of International Countermeasures, Address at the Plenary Meeting of the Financial Action Task Force on Money Laundering. IMF. Retrieved January 03, 2021, from <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp021098>
- Capital Ethiopia. (18 May 2020). The Bitcoin Revolution in Ethiopia. *Capital Ethiopia*, retrieved January 03, 2021, from <https://www.capitalethiopia.com/capital/the-bitcoin-revolution-in-ethiopia/>
- Cassara, A. J. (2016). *Trade-Based Money Laundering: The Next Frontier in International Money Laundering Enforcement*. Hoboken, New Jersey: John Wiley & Sons, Inc.
- Cassella, S. D. (2018). Toward a New Model of Money Laundering: Is the “Placement, Layering, Integration” Model Obsolete? *Journal of Money Laundering Control*, 21(4), 494-497.
- Chaikin, D. and Sharman, C.J. (2009). *Corruption and Money Laundering: A Symbiotic Relationship*. New York, PALGRAVE MACMILLAN.
- Chapman, R. (2018). *Anti-Money Laundering: A Practical Guide to Reducing Organizational Risk*. London, UK: Kogan Page Limited.
- Chatain, P., McDowell, J., Mousset, C., Schott, P. and Willebois, D. (2009). *Preventing Money Laundering and Terrorist Financing: A Practical Guide for Bank Supervisors*. Washington DC: The International Bank for Reconstruction and Development / The World Bank.
- Chêne, M. (2008). Hawala Remittance System and Money Laundering. *U4 Expert Answer*. *Anti-Corruption Resource Centre, Norway*.
- Coinmarketcap. (March 19, 2021). Today's Cryptocurrency Prices by Market Cap. Retrieved March 19, 2021, from <https://coinmarketcap.com/>

- Cox, D. (2014). *Handbook of Anti-Money Laundering*. West Sussex, United Kingdom: John Wiley & Sons Ltd.
- Creswell, J. W. (2013). *Qualitative Inquiry and Research Design: Choosing Among Five Approaches* (3<sup>rd</sup> ed.). SAGE Publications, Inc.
- Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches*. Lincoln: SAGE Publications.
- Cusack, J., Tilahun, N., Serba, E. and Solomon, N. (2020). Financial Crime Threat Assessment-Ethiopia. Retrieved October 22, 2021, from <https://thefinancialcrimenews.com/wp-content/uploads/2020/07/Ethiopia-Deep-Dive-2020-Pbd-3.pdf>
- Denzin, N. and Lincoln, Y. (Ed.). (2018). *The SAGE Handbook of Qualitative Research* (5<sup>th</sup> ed.). SAGE Publications, Inc.
- Dersso, S. A. (2014). *East Africa and the Intergovernmental Authority on Development*. International Peace Institute.
- Deyessa, N., Senbete, B., Abdo, A., & Mundia, B. M. (2020). Population estimation and harm reduction among people who inject drugs in Addis Ababa, Ethiopia. *Harm Reduction Journal*, 17(1), 1-10. <https://doi.org/10.1186/s12954-020-00407-x>
- Dickson-Swift, V., James, L, E. and Liamputtong, P. (2008). *Undertaking Sensitive Research in the Health and Social Sciences: Managing Boundaries, Emotions and Risks*. U.K.: Cambridge University Press.
- Dupuis, D. and Gleason, K. (2020). Money Laundering with Cryptocurrency: Open Doors and the Regulatory Dialectic. *Journal of Financial Crime*, <https://doi.org/10.1108/JFC-06-2020-0113>

- Durrieu, R. (2013). *Rethinking Money Laundering & Financing of Terrorism in International Law: Towards A New Global Legal Order*. Leiden, The Netherlands: Koninklijke Brill NV.
- Duyne, C. P., Harvey, H. J. and Gelemerova, Y. L. (2018). *The Critical Handbook of Money Laundering: Policy, Analysis and Myths*. London, United Kingdom: Palgrave Macmillan.
- Egmont Group. (2021). About. Retrieved January 20, 2021, from <https://egmontgroup.org/content/about>
- Egmont Group. (2019). Ethiopia - Ethiopian Financial Intelligence Centre (FIC). Retrieved November 03, 2020, from <https://egmontgroup.org/en/content/ethiopia-ethiopian-financial-intelligence-centre>
- FIC. (2016b). ህገ-ወጥ የሐዋላ አገልግሎት አፈፃፀም፣ መንስኤዎችና አሉታዊ ተፅዕኖው በኢትዮጵያ፣ ደስሳዊ ጥናት. ኢትዮጵያ፣ አዲስ አበባ፣ የፋይናንስ ደህንነት መረጃ ማዕከል.
- FIC. (n.d). Retrieved August 05, 2021, from <http://www.fic.gov.et/read.html#Zizu>
- Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). (2018a). Who we are? Retrieved January 25, 2021, from <https://www.esaamlg.org/index.php/about>
- ESAAMLG. (2018b). Trends and Methods. Retrieved January 25, 2021, from [https://www.esaamlg.org/index.php/methods\\_trends](https://www.esaamlg.org/index.php/methods_trends)
- Ethiopian News Agency (ENA). (August 30, 2018). ህገ-ወጥ የገንዘብ ዝውውርን በዘላቂነት መፍታት የሚያስችል የህግ ማላቀፍ መዘጋጀት አለበት- የፖለቲካ ፓርቲ አመራሮች. Retrieved February 11, 2019, from <https://www.ena.et/?p=12602#>

- Ethiopian Reporter. (February 10, 2019). በአገሪቱ «የጨለማ ኢኮኖሚ» እንቅስቃሴ መንስራፋቱን የገቢዎች ሚኒስትሩ አመለካከቱ. Retrieved February 11, 2019 from <https://www.ethiopianreporter.com/article/14744>
- European Commission (EC). (2017). Amending Delegated Regulation (EU) 2016/1675, as regards adding Ethiopia to the list of high-risk third countries. Retrieved October 05, 2018, from <https://ec.europa.eu/transparency/regdoc/rep/3/2017/EN/C-2017-1951-F1-EN-MAIN-PART-1.PDF>
- Europol, F. I. G. (2015). Why Is Cash Still King? A Strategic Report on the Use of Cash by Criminal Groups as a Facilitator for Money Laundering. *Trends in Organized Crime*, 18(35), 355–379. <https://doi.org/10.1007/s12117-015-9256-x>
- EXX Africa. (August 14, 2018). The Arms Trade in The Horn of Africa. Retrieved July 31, 2021, from <https://www.africa-newsroom.com/press/the-arms-trade-in-the-horn-of-africa?lang=en>
- Fana Broadcasting Corporate. (March 20, 2021). Ethiopia, South Sudan Sign MoU To Conduct Joint Border Control Operation. Retrieved August 24, 2021, from <https://www.fanabc.com/english/ethiopia-south-sudan-sign-mou-to-conduct-joint-border-control-operation/>
- Fana Broadcasting Corporate. (March 11, 2020). Ethiopian Intelligence Service seizes two containers of illegal firearms. Retrieved May 05, 2020, from <https://www.fanabc.com/english/ethiopian-intelligence-service-seizes-two-containers-of-illegal-firearms/>
- Farooqi, M. N. (2009). Curbing the use of *Hawala* for money laundering and terrorist financing: global regulatory response and future challenges. *International Journal*

*of Business Governance and Ethics*, 5(1-2), 64-75.  
<https://doi.org/10.1504/IJBGE.2010.029556>

Ferwerda, J. (2009). The Economics of Crime and Money Laundering: Does Anti-Money Laundering Policy Reduce Crime? *Review of Law & Economics*, 5(2), 903-929.  
<https://doi.org/10.2202/1555-5879.1421>

Ferwerda, J. (2013). The Effects of Money Laundering. In Brigitte Unger, B. and der Linde, V. D. (Eds). *Research Handbook on Money Laundering* (pp. 35-46). Glos, UK: Edward Elgar Publishing Limited.

Ferwerda, J., Deleanu IS., Unger, B. (2019). Strategies to Avoid Blacklisting: The Case of Statistics on Money Laundering. *PLoS ONE* 14(6): e0218532.  
<https://doi.org/10.1371/journal.pone.0218532>

Ferwerda, J., Kattenberg, M., Chang, H., Unger, B., Groot, L. & Bikker, J. (2013). Gravity Models of Trade-Based Money Laundering, *Applied Economics*, 45(22), 3170-3182.

Financial Action Task Force (FATF). (2003). Combating the Abuse of Alternative Remittance System (International Best Practice). Paris, FATF.

FATF and Middle East and North Africa Financial Action Task Force (MENAFATF). (2015). *Money Laundering through the Physical Transportation of Cash*. FATF, Paris, France and MENAFATF, Manama, Bahrain.

FATF. (2006). Trade-Based Money Laundering. Retrieved June 05, 2019, from <https://www.fatf-gafi.org/media/fatf/documents/reports/Trade%20Based%20Money%20Launderin%20g.pdf>

- FATF. (2009). *Money Laundering and Terrorist Financing in the Securities Sector*. Paris, France.
- FATF. (2010). FATF Public Statement - February 2010. Retrieved June 10, 2019, from <http://www.fatf-gafi.org/countries/d-i/ecuador/documents/fatfpublicstatement-february2010.html>
- FATF. (2011a). Improving Global AML/CFT Compliance: on-going process - 25 February 2011. Retrieved March 08, 2020 from <http://www.fatf-gafi.org/countries/d-i/greece/documents/improvingglobalamlcftcomplianceon-goingprocess-25february2011.html>
- FATF. (2011b). FATF Public Statement - 24 June 2011. Retrieved March 08, 2020, from <http://www.fatf-gafi.org/countries/s-t/turkey/documents/fatfpublicstatement-24june2011.html>
- FATF. (2011c). *Anti-money Laundering and Terrorist Financing Measures and Financial Inclusion (FATF Guidance)*. FATF/OECD, Paris, France.
- FATF. (2012a). FATF Public Statement - 16 February 2012. Retrieved March 08, 2020, from <http://www.fatf-gafi.org/countries/s-t/turkey/documents/fatfpublicstatement-16february2012.html>
- FATF. (2012b). FATF Public Statement - 22 June 2012. Retrieved March 08, 2020, from <http://www.fatf-gafi.org/countries/s-t/turkey/documents/fatfpublicstatement-22june2012.html>
- FATF. (2013a). FATF Public Statement 22 February 2013. Retrieved March 14, 2020, from <http://www.fatf-gafi.org/countries/s-t/turkey/documents/fatfpublicstatement22february2013.html>

- FATF. (2013b). FATF Public Statement - 21 June 2013. Retrieved March 14, 2020, from <http://www.fatf-gafi.org/countries/s-t/turkey/documents/public-statement-june-2013.html>
- FATF. (2014). *Virtual Currencies–Key Definitions and Potential AML/CFT Risks*. Retrieved March 14, 2020, from <https://www.fatf-gafi.org/media/fatf/documents/reports/Virtual-currency-key-definitions-and-potential-aml-cft-risks.pdf>
- FATF. (2014b). Improving Global AML/CFT Compliance: on-going process - 27 June 2014. Retrieved August 24, 2021, from <https://www.fatf-gafi.org/countries/a-c/argentina/documents/fatf-compliance-june-2014.html>
- FATF. (2015). Guidance for a Risk-Based Approach: Virtual Currencies. Retrieved October 05, 2018, from <https://www.fatf-gafi.org/media/fatf/documents/reports/Guidance-RBA-Virtual-Currencies.pdf>
- FATF. (2015a). *25 Years and Beyond*. Paris: FATF/OCED. Retrieved October 05, 2018, from <http://www.fatf-gafi.org/media/fatf/documents/brochuresannualreports/FATF%2025%20years.pdf>
- FATF. (2017a). Improving Global AML/CFT Compliance: On-going Process - 24 February 2017. Retrieved August 24, 2021, from <https://www.fatf-gafi.org/countries/a-c/bosniaandherzegovina/documents/fatf-compliance-november-2017.html>
- FATF. (2017b). Improving Global AML/CFT Compliance: On-going Process - 23 June 2017. Retrieved August 24, 2021, from <https://www.fatf-gafi.org/countries/a-c/afghanistan/documents/fatf-compliance-june-2017.html>

- FATF. (2017c). Improving Global AML/CFT Compliance: On-going Process - 3 November 2017. Retrieved August 24, 2021, from <https://www.fatf-gafi.org/countries/a-c/bosniaandherzegovina/documents/fatf-compliance-november-2017.html>
- FATF. (2018a). Improving Global AML/CFT Compliance: On-going Process - 19 October 2018. Retrieved October 05, 2020, from <http://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-october-2018.html> (accessed 07 December 2018).
- FATF. (2018b). FATF Style Regional Bodies. Retrieved January 26, 2019, from <http://www.fatf-gafi.org/countries/>
- FATF. (2018c). What is Money Laundering? Retrieved January 15, 2019, from <http://www.fatf-gafi.org/faq/moneylaundering/>
- FATF. (2018d). Professional Money Laundering. FATF, Paris, France, Retrieved January 5, 2021, from [www.fatf-gafi.org/publications/methodandtrends/documents/professional-money-laundering.html](http://www.fatf-gafi.org/publications/methodandtrends/documents/professional-money-laundering.html)
- FATF. (2019a). Financial Action Task Force—30 years, FATF, Paris.
- FATF. (2019b). Improving Global AML/CFT Compliance: On-going Process - 18 October 2019. Retrieved August 24, 2021, from <http://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/fatf-compliance-october-2019.html#Ethiopia>
- FATF and APG. (2015). *Money Laundering and Terrorist Financing Risks and Vulnerabilities Associated With Gold*. FATF, Paris and APG, Sydney.

- Fasika, T. (October 11, 2020). Ethiopia: Attorney General Files Money Laundering, Usury Suits. *Addis Fortune*, Retrieved August 24, 2021, from <https://addisfortune.news/attorney-general-files-money-laundering-usury-suits/>
- Gallant, M. M. (2005). *Money Laundering and the Proceeds of Crime: Economic Crime and Civil Remedies*. Edward Elgar Publishing.
- Gallant, M. M. (2014). Money Laundering Consequences: Recovering Wealth, Piercing Secrecy, Disrupting Tax Havens and Distorting International Law. *Journal of Money Laundering Control*, 17 (3), pp. 296–305.
- Gelila, S. (May 23, 2020). Bankers Call for Higher Denomination Bank Notes. *Addis Fortune*, retrieved May 30, 2020, from [https://addisfortune.news/bankers-call-for-higher-denomination-bank-notes/?utm\\_source=rss&utm\\_medium=rss&utm\\_campaign=bankers-call-for-higher-denomination-bank-notes](https://addisfortune.news/bankers-call-for-higher-denomination-bank-notes/?utm_source=rss&utm_medium=rss&utm_campaign=bankers-call-for-higher-denomination-bank-notes)
- Gelila, S. (August 01, 2020). Central Bank Relaxes Cash Withdrawal Limit. *Addis Fortune*, retrieved April 21, 2021, from <https://addisfortune.news/central-bank-relaxes-cash-withdrawal-limit/>
- Given, L. (ed.). (2008). *The Sage Encyclopedia of Qualitative Research Methods* (Volumes 1 & 2). Thousand Oaks, California: SAGE Publications, Inc.
- Gilmore, W. C. (2004). *Dirty money: the evolution of international measures to counter money laundering and the financing of terrorism*. Council of Europe.
- Gleason, P. and Gottselig, G. (2004). *Financial Intelligence Units: An Overview*. Washington, D.C.: IMF and World Bank.

- Global Center on Cooperative Security (GCCS). (2014). Strengthening Anti-Money Laundering and Countering the Financing of Terrorism Capacities in Ethiopia. Retrieved January 15, 2020, from <https://www.globalcenter.org/wp-content/uploads/2013/08/2014-FINAL-Ethiopian-1310-Project-Description-UPDATED.pdf>
- Global Organized Crime Index. (2021). *Global Organized Crime Index 2021*. Global Initiative Against Transnational Organized Crime.
- Gottschalk, P. (2010). *Policing Organized Crime: Intelligence Strategy Implementation*. Taylor & Francis Group.
- Greenberg, T. S., Samuel, L., Grant, W., & Gray, L. (2009). Stolen Asset Recovery: A Good Practices Guide for Non-Conviction Based Asset Forfeiture. The World Bank.
- Gul, S. (2009). An Evaluation of the Rational Choice Theory in Criminology. *Girne American University Journal of Social and Applied Science*, 4(8), 36-44.
- Haile, F. (2019). *The Exchange Rate Why It Matters for Structural Transformation and Growth in Ethiopia*.
- Hailu, A. (September 24, 2020). Ethiopia: Economic and Political Implications of the Currency Note Change. All Africa. *AllAfrica*, retrieved October 20, 2019, from <https://allafrica.com/stories/202009240664.html>
- Hansrod, Z. (September 16, 2018). Djibouti Emerges as Arms Trafficking Hub for Horn of Africa. *Global Focus*, retrieved January 26, 2019, from <http://www.rfi.fr/en/africa/20180915-djibouti-emerges-arms-trafficking-hub-horn-africa>

- Haysom, S., Gastrow, P., & Shaw, M. (2018). *The Heroin Coast: A Political Economy Along the Eastern African Seaboard*.
- Heidt, M. J. and Wheeldon, P. J. (2015). *Introducing Criminological Thinking: Maps, Theories and Understanding*. Thousand Oaks, California: SAGE Publications, Inc.
- Helen T. (March 12, 2021). Ethiopia, Djibouti Ink Agreement to Address Common Security Concerns. *Waltainfo*, retrieved August 24, 2021, from <https://waltainfo.com/ethiopia-djibouti-ink-agreement-to-address-common-security-concerns/>
- Hinterseer, K. (2002). *Criminal Finance: The Political Economy of Money Laundering in a Comparative Legal Context*. UK: Kluwer Law International.
- Houben, R. and Snyers, A. (2018). Cryptocurrencies and Blockchain: Legal Context and Implications for Financial Crime, Money Laundering and Tax Evasion. European Parliament. Retrieved August 24, 2021, from <https://blog.elitex.ir/wp-content/uploads/2020/06/Cryptocurrencies-and-Blockchain.pdf>
- Hülse, R. (2007). Creating demand for global governance: The making of a global money-laundering problem. *Global society*, 21(2), 155-178. <https://doi.org/10.1080/13600820701201731>
- Hunter, M. (2019). *African Illicit Financial Flows Designing and Prioritising Responses (Research Paper)*. Enhancing Africa's Response to Transnational Organized Crime.
- Inter-Government Authority on Development (IGAD). (2010). Transnational Organized Crime (TOC). Retrieved January 20, 2021, from

<https://www.igadssp.org/index.php/components-mainmenu/transnational-organized-crime>

IMO and IGAD. (2015). Human trafficking and smuggling of migrants in the context of mixed migration flows: State of play in the IGAD Region (Sixth IGAD Regional Consultative Process on Migration (IGAD RCP). Retrieved August 25, 2021, from <https://ethiopia.iom.int/sites/ethiopia/files/Human%20trafficking%20and%20smuggling%20of%20Migrants%20-%20state%20of%20play%20in%20the%20IGAD%20....pdf>

International Criminal Police Organization (Interpol). (2018). *Overview of Serious and Organized Crime in East Africa*. Retrieved January 10, 2020, from <https://enact-africa.s3.amazonaws.com/site/uploads/2018-12-12-interpol-east-africa-report.pdf>

Interpol. (2019). *Corruption as a Facilitator for Organized Crime in the Eastern African Region*. Retrieved January 10, 2020, from <https://enactafrica.org/research/analytical-reports/corruption-as-a-facilitator-for-organised-crime-in-the-eastern-african-region>

Interpol. (n.d). Ethiopia. Retrieved June 20, 2019, from <https://www.interpol.int/en/Who-we-are/Member-countries/Africa/ETHIOPIA>

International Monetary Fund (IMF). (2003). *Anti-Money Laundering and Combating the Financing of Terrorism: Regional Video Conference: Anglophone West Africa Region- the Gambia, Ghana, Nigeria, and Sierra Leone*. World Bank and IMF Global Dialogue Series.

IMF. (2018). Ethiopia: Remarkable Progress over More Than a Decade. Retrieved January 13, 2019, from <https://www.imf.org/en/News/Articles/2018/12/04/na120418->

[ethiopia-remarkable-progress](#)

- International Organization for Migration (IMO). (2017). Scaling Up Formal Remittances to Ethiopia (Executive Summary). Retrieved August 20, 2019, from [https://www.iom.int/sites/default/files/press\\_release/file/iom-ethiopia-executive-summary-21.pdf](https://www.iom.int/sites/default/files/press_release/file/iom-ethiopia-executive-summary-21.pdf)
- Irrera, A. (December 9, 2020). Criminals Getting Smarter in Use of Digital Currencies to Launder Money. *Reuters*, retrieved February 23, 2021, from <https://www.reuters.com/article/crypto-currencies-criminals-idUSKBN28J1IX>
- Irwin, A. M., Choo, K, R. and Liu, L. (2012). Modeling of Money Laundering and Terrorism Financing Typologies. *Journal of Money Laundering Control*, 15(3), 316–335.
- Jacob, A. (2011). Economic Theories of Crime and Delinquency. *Journal of Human Behavior in the Social Environment*, 21(3), 270-283.
- Kaleab, G. (2019). Despite Murky Picture, Bitcoin Hatches. *Addis Fortune*, retrieved January February 22, 2021, from <https://addisfortune.net/addisfortunefeature/despite-murky-picture-bitcoin-hatches/>
- Kalkidan, M. J. (2020). Anti-money laundering in Ethiopia: Issue of enforcement with specific reference to the banks, *Mizan Law Review*, 14(1), 31-60.
- Keatinge, T. (2014). *Growing an Economy: Impact of Foreign Exchange and Remittances on Ethiopian Development (Policy Brief)*. Global Center on Cooperative Security.
- Kethineni, S. and Cao, Y. (2019). The Rise in Popularity of Cryptocurrency and Associated Criminal Activity. *International Criminal Justice Review*, 30(3), 325-344,

<https://doi.org/10.1177%2F1057567719827051>

- Kfir, I. (2020). Cryptocurrencies, National Security, Crime and Terrorism. *Comparative Strategy*, 39(2), 113-127, <https://doi.org/10.1080/01495933.2020.1718983>
- Kleemans, R. E. (2014). Theoretical Perspectives on Organized Crime. In Paoli, L. (Ed.), *The Oxford Handbook of Organized Crime* (pp.32-52). Madison, New York: Oxford University Press.
- Kukutschka, R. M. B. (2018). Illicit Financial Flows in Ethiopia. Retrieved July 20, 2020, from <https://beta.u4.no/publications/illicit-financial-flows-in-ethiopia.pdf>
- Kumar, V. (2012). Money Laundering: Concept, Significance and its Impact. *European Journal of Business and Management*, 113-119.
- Lee, M. R. (1993). *Doing Research on Sensitive Topics*. Thousand Oaks, California: SAGE Publications, Inc.
- Leedy, P. and Ormrod, J. (2015). *Practical Research: Planning and Design* (11<sup>th</sup> ed.). Harlow, England: Pearson Education Limited.
- Leong, A. V. M. (2007). *The Disruption of International Organised Crime: An Analysis of Legal and Non-Legal Strategies*. London: Routledge.
- Levi, M. (2014). Money Laundering. In Paoli, L. (Ed.). *The Oxford Handbook of Organized Crime* (PP. 419-443). Oxford University Press.
- Levi, M. and Reuter, P. (2006). Money Laundering. *Crime and Justice*, 34(1), 289-375.
- Lilley, P. (2006). *Dirty Dealing: The Untold Truth about Global Money Laundering, International Crime and Terrorism* (3<sup>rd</sup> ed.). Philadelphia: Kogan Page Limited.
- Lucey, A. & Mesfin, B. (2016). *More than a Chip off the Block: Strengthening IGAD-AU Peacebuilding Linkages*. Policy Brief 91, Institute for Security Studies.

- Lune, H. and Berg, B. (2017). *Qualitative Research Methods for the Social Sciences* (9<sup>th</sup> ed.). Pearson Education Limited, Global Edition.
- Lynch, J. M. (2013a). Political Economy and Crime: An Overview. *Journal of Crime and Justice*, 36(2), 137-147.
- Lynch, J. M. (2013b). Reexamining Political Economy and Crime and Explaining the Crime Drop. *Journal of Crime and Justice*, 36(2), 248-262.
- Marsh, I., Melville, G., Morgan, K., Norris, G. and Walkington, Z. (2006). *Theories of Crime*. Madison Ave, New York: Routledge.
- Masciandaro, D. (2004). Combating Black Money: Money Laundering and Terrorism Finance, International Cooperation and the G8 Role. *International Cooperation and the G8 Role (June 2004)*. *Universita di Lecce Economics Working Paper*, (56/26).
- Masciandaro, D. (2007). *Economics of Money Laundering: A Primer*.
- Mathers, C. (2004). *Crime School: Money Laundering: True Crime Meets the World of Business and Finance*. Firefly Books.
- Maxwell, J. (2013). *Qualitative Research Design: An Interactive Approach* (3<sup>rd</sup> ed.). Thousand Oaks, California: SAGE Publications, Inc.
- McCarthy, J. K. (Ed). (2018). *The Money Laundering Market: Regulating the Criminal Economy*. Agenda Publishing Limited.
- Mengistu, M. M. (2018). The Role of Regional Economic Communities in Conflict Resolution in Africa: The Case of IGAD's Peace Process in South Sudan. *Global Journal of Political Science and Administration*, 6(1), 19-29.
- Miraglia, P., Ochoa, R. and Briscoe, I. (2012). *Transnational Organised Crime and Fragile*

- States. *OECD Development Co-operation Working Papers*, No. 5, OECD Publishing, Paris, <https://doi.org/10.1787/5k49dfg88s40-en>.
- Moller, L. C. (2015). *Ethiopia's Great Run: The Growth Acceleration and How to Pace It*. Washington, DC: World Bank Group.
- Moreira, T. B., Sachside, A. & Loureiro, P. (2012). A Dynamic Model of Organized Crime and Money Laundering. *Economics and Finance Review*, 1(11), 42–47.
- Moshi, H. (2012). *Implications of Cash-Dominated Transactions for Money Laundering*. Retrieved August 24, 2021, from <https://issafrica.s3.amazonaws.com/site/uploads/SitRep2012Oct.pdf>
- Muller, H. W. (2007). The Egmont Group. In Muller, H. W., Kalin, H. C. and Goldsworth, G. J. (Eds.). *Anti-Money Laundering: International Law and Practice* (PP. 83-92). West Sussex, England: John Wiley & Sons Ltd.
- Muluken, Y. (May 25, 2020). Bankers Association Requests Change of Features on Current Currency Notes". *Capital Newspaper*, retrieved August 24, 2021, from <https://www.capitalethiopia.com/featured/bankers-association-requests-change-of-features-on-current-currency-notes/>
- Muluken, Y. (October 12, 2020). Attorney General indict high profile individuals for money laundering. *Capital Newspaper*, retrieved August 24, 2021, from <https://www.capitalethiopia.com/featured/attorney-general-indict-high-profile-individuals-for-money-laundering/>
- Mynhardt, R. H., & Marx, J. (2013). Anti-money Laundering Recommendations for Cash-Based Economies in West Africa. *Corporate Ownership and Control*, 11(1 H), 24-32.

- Nabilou, H. (2019). The Dark Side of Licensing Cryptocurrency Exchanges as Payment Institutions. *Law and Financial Markets Review*, <https://doi.org/10.1080/17521440.2019.1626545>
- Naheem, A. M. (2015). Trade-Based Money Laundering: Towards A Working Definition for the Banking Sector. *Journal of Money Laundering Control*, 18(4), 513–524.
- National Bank of Ethiopia (NBE). (2020c). The Government of Ethiopia has Introduced New Currency Notes. Retrieved January 20, 2021, from <https://nbebank.com/the-government-of-ethiopia-today-has-introduced-new-currency-notes/>
- NBE. (September 14, 2020). The Government of Ethiopia Has Introduced New Currency Notes. Retrieved August 27, 2021, from <https://nbebank.com/the-government-of-ethiopia-today-has-introduced-new-currency-notes/>
- Neuman, W. (2014). *Social Research Methods: Qualitative and Quantitative Approaches* (7<sup>th</sup> ed.). Harlow: Pearson Education Limited.
- Organization of the African Union (OAU). (1999). OAU Convention on the Prevention and Combating of Terrorism. Retrieved August 27, 2021, from [https://au.int/sites/default/files/treaties/37289-treaty-0020\\_-\\_oau\\_convention\\_on\\_the\\_prevention\\_and\\_combating\\_of\\_terrorism\\_e.pdf](https://au.int/sites/default/files/treaties/37289-treaty-0020_-_oau_convention_on_the_prevention_and_combating_of_terrorism_e.pdf)
- Peters, W. G. and Panayi, E. (2015). Trends in Crypto-Currencies and Blockchain Technologies: A Monetary Theory and Regulation Perspective. *Journal of Financial Perspectives*, 3(3), 1-18.
- Pieth, M. (2007). The Wolfsberg Process. In Muller, H. W., Kalin, H. C. and Goldsworth, G. J. (Eds.). *Anti-Money Laundering: International Law and Practice* (PP. 93-103). West Sussex, England: John Wiley & Sons Ltd.

- Ping He. (2010). A Typological Study on Money Laundering. *Journal of Money Laundering Control*, 13(1), 15–32.
- Popper, N. (January 28, 2020). Bitcoin Has Lost Steam. But Criminals Still Love It. *New York Times*, retrieved February 23, 2021, from <https://www.nytimes.com/2020/01/28/technology/bitcoin-black-market.html>
- Quartz Africa. (September 6, 2020). Ethiopia is Demonetizing its Economy with New Currency to Tackle Hoarding and Illegal Trade. Retrieved November 18, 2021, from <https://qz.com/africa/1903270/ethiopia-demonetizes-with-new-birr-notes-to-boost-economy/>
- Ravitch, S. M. and Carl, M. N. (2016). *Qualitative Research: Bridging the Conceptual, Theoretical, and Methodological*. Thousand Oaks, California: SAGE Publications, Inc.
- Reiner, R. (2012). Casino Capital's Crimes: Political Economy, Crime, and Criminal Justice. In Maguire, M., Morgan, R. and Reiner R. (Eds.), *The Oxford Handbook of Criminology* (5<sup>th</sup> ed.) (pp. 301-335). Oxford University Press.
- The Reporter Ethiopia. (September 19, 2020). Demonetization: Shot at Corruption and Informal Economy. Retrieved August 27, 2021, from <https://www.thereporterethiopia.com/article/demonetization-shot-corruption-and-informal-economy>
- Reuter, P. (2013). Are estimates of the volume of money laundering either feasible or useful? In Brigitte Unger, B. and der Linde, V. D. (Eds). *Research Handbook on Money Laundering* (pp. 224-231). Glos, UK: Edward Elgar Publishing Limited.

- Reuter, P. and Truman, M. E. (2005). *Chasing Dirty Money: The Fight against Money Laundering*. Washington, DC: Institute for International Economics.
- Reuters. (January 9, 2020). Ethiopia Passes Gun Control Law to Tackle Surge in Violence. Retrieved November 15, 2020, from <https://www.reuters.com/article/us-ethiopia-guncontrol/ethiopia-passes-gun-control-law-to-tackle-surge-in-violence-idUSKBN1Z81HE>
- Robson, C. and McCartan, K. (2016). *Real World Research: A Resource for Users of Social Research Methods in Applied Settings* (4<sup>th</sup> ed.). Paris: John Wiley & Sons Ltd.
- Wegberg R., Oerlemans, J. and Deventer, O. (2019). Bitcoin Money Laundering: Mixed Results? An Explorative Study on Money Laundering of Cybercrime Proceeds Using Bitcoin. *Journal of Financial Crime*, 25(2), 419-435, <https://doi.org/10.1108/JFC-11-2016-0067>
- Ruggiero, V. (2017). Networks of Greed. *Justice, Power and Resistance*, 1(1), 3-23.
- Samson, B. (November 12, 2017). EU Lists Ethiopia Over Money Laundering. *Addis Fortune*, retrieved April 13, 2021, from <https://addisfortune.net/articles/eu-lists-ethiopia-over-money-laundering/>
- Sarigul, H. (2013). Money Laundering and Abuse of the Financial System. *International Journal of Business and Management Studies*, 2(1), 287-301.
- Schott, P. (2006). *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism* (2<sup>nd</sup> ed.). The World Bank.
- Seble, W. (July 13, 2020). Second Interest-Free Bank Gets Closer to Joining Industry. *Addis Fortune*, retrieved November 15, 2020, from <https://addisfortune.news/second-interest-free-bank-gets-closer-to-joining->

[industry/](#)

- Serio, D. J. (2004). Fueling Global Crime: The Mechanics of Money Laundering. *International Review of Law, Computers & Technology*, 18(3), 435-444.
- Shaw, M. (2014). Organized Crime in Africa. In Reichel, P. and Albanese, J. (Eds.), *Handbook of Transnational Crime and Justice* (2<sup>nd</sup> ed.) (pp. 427-441). Thousand Oaks, California: SAGE Publications, Inc.
- Shaw, M. (2017). *Africa's Changing Place in the Global Criminal Economy*. Enhancing Africa's Response to Transnational Organized Crime: Institute for Security Studies, INTERPOL and Global Initiative on Transnational Organised Crime.
- Sahan Foundation and IGAD. (2016). Human Trafficking and Smuggling on the Horn of Africa-Central Mediterranean Route. Retrieved August 25, 2021, from [https://igad.int/attachments/1284\\_ISSP%20Sahan%20HST%20Report%20%2018%20ii2016%20FINAL%20FINAL.pdf](https://igad.int/attachments/1284_ISSP%20Sahan%20HST%20Report%20%2018%20ii2016%20FINAL%20FINAL.pdf)
- Shetret L., Durner T., Danielle C. and Tobin, P. (2015). *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.
- Shover, N. and Hochstetler, A. (2006). *Choosing White-Collar Crime*. Cambridge, UK: Cambridge University Press.
- Siegel, L. J. (2012). *Criminology: Theories, Patterns and Typologies* (11<sup>th</sup> ed.). Belmont, California: Wadsworth.
- Soudijn, M. (2014). A Critical Approach to Trade-Based Money Laundering. *Journal of Money Laundering Control*, 17(2), 230–242.
- Stessens, G. (2003). *Money Laundering: A New International Law Enforcement Model*. USA, New York: Cambridge University Press.

- Sullivan, K. (2015). *Anti-Money Laundering in a Nutshell: Awareness and Compliance for Financial Personnel and Business Managers*. Apress
- Sullivan, C. and Smith, E. (2011). Trade-Based Money Laundering: Risks and Regulatory Responses. Australian Institute of Criminology.
- Tesfa M. (Feburaury 17, 2016). Ethiopia Feeling Pinch of Illicit Financial Outflows. *Anadolu Agency*, retrieved August 25, 2021, from <https://www.aa.com.tr/en/economy/ethiopia-feeling-pinch-of-illicit-financial-outflows/522507>
- Tracy, S. J. (2013). *Qualitative Research Methods: Collecting Evidence, Crafting Analysis, Communicating Impact*. West Sussex, UK: John Wiley & Sons, Ltd.
- Tu'emay, A. D. and Cockayne, J. eds. (2012). ISSP-CGCC Joint Baseline Study on Anti-Money Laundering and Countering the Financing of Terrorism in the IGAD Subregion. Center on Global Counterterrorism Cooperation (CGCC). Retrieved November 15, 2019, from [http://www.globalct.org/images/content/pdf/reports/AML\\_Report.pdf](http://www.globalct.org/images/content/pdf/reports/AML_Report.pdf)
- Tu'emay, A. (2013). *The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia: Second Assessment Report*. Goshen: Center on Global Counterterrorism Cooperation.
- Turner, A. and Irwin, S. M. A. (2018). Bitcoin Transactions: A Digital Discovery of Illicit Activity on The Blockchain. *Journal of Financial Crime*, <https://doi.org/10.1108/JFC-12-2016-0078>
- Unger, B. & Hertog, J. (2012). Water Always Finds Its Way: Identifying New Forms of Money Laundering. *Crime Law Soc Change* 57: 287–304. <https://doi.org/10.1007/s10611-011-9352-z>

- United Nations (UN). (2019). Member States. Retrieved March 1, 2019, from <http://www.un.org/en/member-states/index.html>
- United Nations Office on Drug and Crime (UNODC) and International Monetary Fund (IMF), (2005). *Model Legislative on Money Laundering and Terrorism Financing (for civil law legal systems)*. Retrieved January 15, 2019, from <https://www.imf.org/external/np/leg/amlcft/eng/pdf/amlml05.pdf>
- UNODC. (2011). *Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Transnational Organized Crimes* (Research Report). Vienna: UNODC.
- UNODC. (2013). Transnational organized Crime in Eastern Africa: A Threat Assessment. Retrieved August 25, 2021, from [https://www.unodc.org/documents/data-and-analysis/Studies/TOC\\_East\\_Africa\\_2013.pdf](https://www.unodc.org/documents/data-and-analysis/Studies/TOC_East_Africa_2013.pdf)
- UNODC. (2020). Regional impact of addressing illicit drugs in Ethiopia highlighted at event co-organized by UNODC. Retrieved August 8, 2021, from <https://www.unodc.org/unodc/en/frontpage/2020/March/regional-impact-of-addressing-illicit-drugs-in-ethiopia-highlighted-at-event-co-organized-by-unodc.html>
- UNODC. (n.d). Global Programme against Money Laundering. Retrieved August 24, 2021, from <https://www.unodc.org/unodc/en/money-laundering/global-programme-against-money-laundering/.html>
- U.S. Department of State. (2015). Countries/Jurisdictions of Primary Concern - Ethiopia. Retrieved January 27, 2019, from <https://www.state.gov/j/inl/rls/nrcrpt/2015/supplemental/239193.htm>

- U.S. Department of State. (2020). 2020 Trafficking in Persons Report: Ethiopia. Retrieved January 27, 2021, from <https://www.state.gov/reports/2020-trafficking-in-persons-report/ethiopia/>
- Vandezande, N. (2017). Virtual Currencies Under EU Anti-Money Laundering Law. *Computer law & security review*, 33 (3), 1-13, <http://dx.doi.org/10.1016/j.clsr.2017.03.011>
- Vaughan, S., & Gebremichael, M. (2011). Rethinking Business and Politics in Ethiopia: The Role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray. In *Africa Power and Politics Programme*.
- Walker, J. (2007). How Big is Global Money Laundering? *Journal of Money Laundering Control*, 3(1), 25-37.
- Weldesellassie, K. I. (2011). IGAD as an International Organization, Its Institutional Development and Shortcomings. *Journal of African Law*, 55(1), 1-29.
- Wilson, T. (May 30, 2019). Ethnic violence in Ethiopia has forced nearly 3 million people from their homes. *Los Angeles Times*, retrieved August 7, 2021, from <https://www.latimes.com/world/la-fg-ethiopia-ethnic-violence-millions-displaced-20190530-story.html>
- Wolfsburg Group. (n.d). Global Banks: Global Standards. Retrieved March 25, 2022, from <https://www.wolfsberg-principles.com/about/mission>
- Wolfson, R. (April 30, 2019). Cardano Founder Launches Enterprise Blockchain Framework in Collaboration with Ethiopian Government. *Forbes*, retrieved January 27, 2020, from <https://www.forbes.com/sites/rachelwolfson/2019/04/30/cardano-founder->

[launches-enterprise-blockchain-framework-in-collaboration-with-ethiopian-government/#22a38b114e10](#)

Wossenseged, A. (September 17, 2020). Ethiopia: The Newly-Introduced Banknotes and the Possible Ramifications. *AllAfrica*, retrieved August 24, 2021, from <https://allafrica.com/stories/202009170348.html>

World Bank-ESAAMLG). (2015). *Mutual Evaluation Report Anti-Money Laundering and Combating the Financing of Terrorism The Federal Democratic Republic of Ethiopia*. Retrieved December 27, 2019, from <https://www.fatf-gafi.org/media/fatf/documents/reports/mer-fsrb/WB-ESAAMLG-Mutual-Evaluation-Report-Ethiopia-2015.pdf>

World Bank. (2009). *Combating Money Laundering and the Financing of Terrorism: A Comprehensive Training Guide*. Washington DC: The World Bank.

World Bank. (2016). Ethiopia's Great Run: The Growth Acceleration and How to Pace It. Retrieved October 27, 2019, from <http://documents.worldbank.org/curated/en/693561467988949839/pdf/99399-REVISED-PUBLIC-thiopia-Economic-Update-2-11-16-web.pdf>

World Bank. (2018). *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*. International Bank for Reconstruction and Development/The World Bank, Washington, DC

Wright, A. (2006). *Organised Crime*. London: Willan.

Xinhua. (August 31, 2019). Ethiopian police nabs 80 individuals for drug trafficking. Retrieved August 24, 2021, from [http://www.xinhuanet.com/english/2019-08/31/c\\_138352023.htm](http://www.xinhuanet.com/english/2019-08/31/c_138352023.htm)

- Yin, R. (2014). *Case Study Research: Design and Methods* (5<sup>th</sup> ed). Thousand Oaks, California: SAGE Publications, Inc.
- Yin, R. (2016). *Qualitative Research from Start to Finish* (2<sup>nd</sup> ed). New York: The Guilford Press.
- Zetter, K. (September 05, 2012). FBI Fears Bitcoin's Popularity with Criminals. *Wired*, retrieved February 23, 2021, from <https://www.wired.com/2012/05/fbi-fears-bitcoin/>
- Zoppei, V. (2017). *Anti-Money Laundering Law: Socio-Legal Perspectives on the Effectiveness of German Practices*. Berlin, Germany: T.M.C. Asser Press.

### **Normative Frameworks**

- African Union. (2015). Agenda 2063: The Africa We Want. Retrieved August 24, 2021, from [https://au.int/Agenda2063/popular\\_version](https://au.int/Agenda2063/popular_version)
- AU (2003). African Union Convention on Preventing and Combating Corruption. Retrieved August 24, 2021, from [https://au.int/sites/default/files/treaties/36382-treaty-0028\\_-\\_african\\_union\\_convention\\_on\\_preventing\\_and\\_combating\\_corruption\\_e.pdf](https://au.int/sites/default/files/treaties/36382-treaty-0028_-_african_union_convention_on_preventing_and_combating_corruption_e.pdf)
- Organization of African Unity (OAU). (1999). OAU Convention on the Prevention and Combating of Terrorism. Retrieved August 24, 2021, from [https://au.int/sites/default/files/treaties/37289-treaty-0020\\_-\\_oau\\_convention\\_on\\_the\\_prevention\\_and\\_combating\\_of\\_terrorism\\_e.pdf](https://au.int/sites/default/files/treaties/37289-treaty-0020_-_oau_convention_on_the_prevention_and_combating_of_terrorism_e.pdf)
- Basel Committee. (1988). Prevention of Criminal Use of The Banking System for The Purpose of Money-Laundering. Retrieved August 25, 2021, from <https://www.bis.org/publ/bcbsc137.pdf>

Egmont Group. (2001a). Statement of Purpose of the Egmont Group of Financial Intelligence Units. The Hague, Netherlands.

Egmont Group. (2001b). Principles for Information Exchange Between Financial Intelligence Units for Money-Laundering Cases. The Hague, Netherlands.

Ethiopian Customs Commission Directive No. 12. (2008). በጉምሩክ ስራ ላይ በሚፈፀሙ ወንጀሎችን በአስተዳደራዊ ውሳኔ ለመጨረስ የወጣ መመሪያ ቁጥር 12/2001. Retrieved September 10, 2019, from [http://www.mor.gov.et/images/Documents/Directives/Amharic Format/12\\_2001\\_\\_\\_\\_.pdf](http://www.mor.gov.et/images/Documents/Directives/Amharic Format/12_2001____.pdf)

Ethiopian Financial Intelligence Center (FIC). (2014). Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014. Retrieved March 03, 2019, from <http://www.fic.gov.et/Home/DownloadFile?fileName=FI%20CDD%202014.pdf>

FIC. (2016a). Designated Non-Financial Business and Professions' Anti-money Laundering and Countering the Financing of Terrorism Compliance Directives Number 02/2016. Retrieved March 03, 2019, from <http://www.fic.gov.et/Home/DownloadFile?fileName=DNFBPs%27%20directive.docx>

FIC. (2019). Suspicious Transactions Detection and Reporting Guidelines for Financial Institutions 02/2019. Retrieved January 03, 2020, from <http://www.fic.gov.et/Home/DownloadFile?fileName=STR-Guideline.pdf>

Federal Democratic Republic of Ethiopia. (FDRE). (1995). The Constitution of the Federal Democratic Republic of Ethiopia (FDRE Constitution) Proclamation No. 01/1995.

- FDRE. (2002). Republic of Ethiopia Foreign Affairs and National Security Policy and Strategy. Ministry of Information Press & Audiovisual Department, Addis Ababa, Ethiopia. Retrieved March 22, 2021, from <https://chilot.me/wp-content/uploads/2011/08/national-security-policy-and-strategy.pdf>
- FDRE. (2004). The Criminal Code of the Federal Democratic Republic of Ethiopia Proclamation No. 414/2004. Retrieved November 15, 2019, from [https://sherloc.unodc.org/res/cld/document/eth/2005/the\\_criminal\\_code\\_of\\_the\\_federal\\_democratic\\_republic\\_of\\_ethiopia\\_2004\\_html/Criminal\\_Code\\_2004\\_Official\\_English.pdf](https://sherloc.unodc.org/res/cld/document/eth/2005/the_criminal_code_of_the_federal_democratic_republic_of_ethiopia_2004_html/Criminal_Code_2004_Official_English.pdf)
- FDRE. (2008). Banking Business Proclamation No. 592/2008. Retrieved January 28, 2021, from <https://nbebank.com/wp-content/uploads/2019/04/BANKING-BUSINESS-592.pdf>
- FDRE. (2009). A Proclamation for the Suppression and Prevention of Money Laundering and Terrorist Financing Proclamation No. 657/2009. Retrieved November 15, 2019, from <https://chilot.me/2011/11/proclamation-no-6572009-a-proclamation-on-prevention-and-suppression-of-money-laundering-and-the-financing-of-terrorism/>
- FDRE. (2011). National Payment System Proclamation No. 718/2011. Retrieved January 28, 2021, from <https://nbebank.com/wp-content/uploads/2019/04/nationalpaymentsystem.pdf>
- FDRE. (2011a). Ethiopian Criminal Justice System Policy. Retrieved August 25, 2021, from <http://www.ethcriminalawnetwork.com/system/files/FDRE%20Criminal%20Justi>

[ce%20Policy%20%28Amharic%29.pdf](#)

- FDRE. (2011c). Ethiopian Federal Police Commission Establishment Proclamation No. 720/2011. Retrieved August 25, 2021, from <https://policehumanrightsresources.org/content/uploads/2017/09/Proclamation-720-of-2011-Ethiopian-Federal-Police-Commission.pdf?x96812>
- FDRE. (2012). Registration of Vital Events and National Identity Card Proclamation No. 670 in 2012. Retrieved January 28, 2021, from [http://citizenshiprightsafrika.org/wp-content/uploads/2017/05/Ethiopia\\_proclamation-no-760-2012-vital-events-national-IDcard.pdf](http://citizenshiprightsafrika.org/wp-content/uploads/2017/05/Ethiopia_proclamation-no-760-2012-vital-events-national-IDcard.pdf)
- FDRE. (2013). Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 780/2013. Retrieved November 15, 2019, from [http://www.fic.gov.et/Home/DownloadFile?fileName=780\\_Eth\\_pro.pdf](http://www.fic.gov.et/Home/DownloadFile?fileName=780_Eth_pro.pdf)
- FDRE. (2014). Customs Proclamation No. 859/2014. Retrieved November 15, 2019, from <https://chilot.files.wordpress.com/2014/09/proclamation-no-859-2014-customs-proclamation.pdf>
- FDRE. (2015a). Corruption Crimes Proclamation No. 881/2015. Retrieved April 5, 2021, from <https://chilot.files.wordpress.com/2017/04/proclamation-no-881-2015-corruption-crimes-proclamation.pdf>
- FDRE. (2015b). Authentication and Registration of Documents' Proclamation No. 922/2015. Retrieved April 5, 2021, from [https://chilot.me/wp-content/uploads/2016/04/proclamation-no-922-2015-authentication-and-registration-of-documents\\_-proclamation.pdf](https://chilot.me/wp-content/uploads/2016/04/proclamation-no-922-2015-authentication-and-registration-of-documents_-proclamation.pdf)

- FDRE. (2016a). Growth and Transformation Plan II (GTP II) (2015/16-2019/20). Retrieved May 08, 2020, from <https://ethiopia.un.org/sites/default/files/2019-08/GTPII%20%20English%20Translation%20%20Final%20%20June%2021%202016.pdf>
- FDRE. (2016b). National Money Laundering & Terrorism Financing Risk Assessment. The Ethiopian Financial Intelligence Center, Addis Ababa, Ethiopia.
- FDRE. (2016c). Federal Attorney-General Establishment Proclamation No. 943/2016. Retrieved November 15, 2019, from [https://www.lawethiopia.com/images/federal\\_proclamation/proclamations\\_by\\_number/943.pdf](https://www.lawethiopia.com/images/federal_proclamation/proclamations_by_number/943.pdf)
- FDRE. (2019a). National Anti-money Laundering and Combating the Financing of Terrorism Policy. Retrieved May 05, 2020, from <http://www.fic.gov.et/Home/DownloadFile?fileName=NAML-Policy.pdf>
- FDRE. (2019b). Banking (Amendment) Proclamation No. 1159/2019. Retrieved January 28, 2021, from <https://nbebank.com/wp-content/uploads/pdf/directives/bankingbusiness/banking-business-proclamation-1159-2019.pdf>
- FDRE. (2019c). Insurance Business (Amendment) Proclamation No. 1163/2019. Retrieved January 28, 2021, from <https://nbebank.com/wp-content/uploads/pdf/directives/insurancebusiness/insurance-business-proclamation-1163-2019.pdf>
- FDRE. (2019d). Microfinance Business (Amendment) Proclamation No. 1164/2019. Retrieved January 28, 2021, from <https://nbebank.com/wp-content/uploads/pdf/directives/microfinancebusiness/microfinance-business-proclamation-1164-2019.pdf>

[content/uploads/pdf/proclamation/microfinance-business-proclamation-1164-2019.pdf](#)

FDRE. (2020). Investment Proclamation No. 1180/2020. Retrieved December 20, 2021, from <https://www.abysinialaw.com/uploads/1180.pdf>

FDRE. (2020b). Prevention and Suppression of Trafficking in Persons and Smuggling of Persons Proclamation No. 1178/2020. Retrieved December 20, 2021, from <https://chilot.me/2020/04/prevention-and-suppression-of-trafficking-in-persons-and-smuggling-of-persons-proclamation-no-1178-2020/>

FATF. (2012-2019). International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation–The FATF Recommendations (Updated June 2019). Retrieved March 08, 2020, from <https://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf>

Imperial Ethiopian Government. (1961). Criminal Procedure Code of Ethiopia. Pub. L. No. Proclamation No.185. Berhanena Selam Haile Selassie I Printing Press, Addis Ababa, Ethiopia.

Inter-Government Authority on Development (IGAD). (1996). Agreement Establishing the Inter-Government Authority on Development. Assembly of Heads of State and Government. Nairobi; IGAD/SUM-96/AGRE-DOC.

IGAD. (2009a). IGAD Convention on Mutual Legal Assistance in Criminal Matters. Retrieved April 6, 2021, from <https://igadssp.org/index.php/documentation/2-igad-convention-on-mutual-legal-assistance-in-criminal-matters/file>

- IGAD. (2009a). IGAD Convention on Extradition. Retrieved April 6, 2021, from <https://igadssp.org/index.php/documentation/1-igad-convention-on-extradition/file>
- National Bank of Ethiopia (NBE). (2010). Customer Due Diligence of Banks Directives No. SBB/46/2010. Retrieved August 25, 2021, from <https://dfsobservatory.com/sites/default/files/National%20Bank%20of%20Ethiopia%20-%20Directives%20No.%20SBB-46-2010%20-%20Customer%20Due%20Diligence%20of%20Banks.pdf>
- NBE. (2017a). *National Financial Inclusion Strategy*. Addis Ababa, Ethiopia.
- NBE. (2017b). Transparency in Foreign Currency Allocation and Foreign Exchange Management Directives No. FXD/46/2017, an Amendment to Directives No. FXD/45/2016. Retrieved January 20, 2019, from <https://nbebank.com/wp-content/uploads/pdf/directives/forex/fxd%2046%202017.pdf?x49341>
- NBE. (2017c). Limits on the Birr and Foreign Currency Holding in the Territory of Ethiopia Directives No. FXD/49/2017. Retrieved January 20, 2019, from <https://nbebank.com/wp-content/uploads/pdf/directives/forex/Limits%20of%20Birr%20holding.pdf>
- NBE. (2020). Cash Withdrawal Limit Directive No. FIS/03/2020. Retrieved May 30, 2020, from <https://nbebank.com/wp-content/uploads/pdf/directives/bankingbusiness/Cash-Withdrawal-Limit.pdf>
- NBE. (2020a). Licensing and Authorization of Payment Instrument Issuers Directive No. ONPS/01/2020. Retrieved January 20, 2021, from <https://www.nbe.gov.et/wp-content/uploads/pdf/proclamation/oversight-the-national-payment-system.pdf>

- NBE. (2020b). Licensing and Authorization of Payment System Operators Directive No. ONPS/02/2020. Retrieved January 20, 2021, from <https://www.nbe.gov.et/wp-content/uploads/pdf/directives/Payment%20system/ONPS-02-2020.pdf>
- United Nations (UN). (1988). UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Vienna, Austria.
- UN. (2000). The UN Convention Against Transnational Organized Crime. Retrieved December 20, 2019, from [https://treaties.un.org/doc/Treaties/2000/11/20001115%2011-11%20AM/Ch\\_XVIII\\_12p.pdf](https://treaties.un.org/doc/Treaties/2000/11/20001115%2011-11%20AM/Ch_XVIII_12p.pdf)
- UN. (2003). UN Convention Against Corruption. Retrieved August 25, 2021, from [https://www.unodc.org/documents/brussels/UN\\_Convention\\_Against\\_Corruption.pdf](https://www.unodc.org/documents/brussels/UN_Convention_Against_Corruption.pdf)
- UN. (2015). Sustainable Development Goals (SDGs). Retrieved August 25, 2021, from <https://sdgs.un.org/goals>
- United Nations Security Council (UNSC). (2005). UNSC Resolution 1617 (2005). Retrieved January 15, 2019, from <http://unscr.com/files/2005/01617.pdf>

# **Appendices**

## **Appendix I: Interview Guidelines**

**Addis Ababa University**

**Institute for Peace and Security Studies**

Interviews Questions to the Research Participants of the FIC

**Dear research participant,** I am interviewing to get information on “Money Laundering and Its Countermeasures in Ethiopia”. This interview guideline is used for academic purposes only. I would like to assure you that the researcher adheres to the principles and values of the research process. Specifically, the principles of informed consent, no harm for research participants, privacy, and confidentiality of the research participant should be strictly maintained throughout the research process. Your response to any of the questions will not be given to anyone else and no report of the study ever identifies you. If a report of results is published, only information about the issue will appear.

I would like to appreciate you for giving me your time to conduct the interview. Finally, I ask your genuine response to each of the questions, for it will give life to the study result.

1. Is Ethiopia vulnerable to money laundering? What are the risk factors that contribute to such vulnerability?
2. What are the major sources of illicit money commonly committed in Ethiopia?
3. How the criminal entrepreneurs launder the proceeds or instrumentalities of crime?
4. What are the ramifications of money laundering on Ethiopia’s economy and security?
5. What are the key laws and institutions put in place to prevent and suppress money laundering?
6. How have the Ethiopian anti-money laundering laws evolved over the years?
7. How does the Ethiopian anti-money laundering system operate?
8. Is Ethiopia’s anti-money laundering system (legal norms and institutions) adequate/effective in combating the menace of money laundering?
9. What role does the FIC play in combating and preventing money laundering?
10. So far, what are the achievements of the FIC in combating and preventing money laundering?

11. What limitations and challenges do the FIC face in implementing the country's anti-money laundering standards?
12. If you have any additional comments about money laundering and its countermeasures in Ethiopia, please welcome?

**Addis Ababa University**  
**Institute for Peace and Security Studies**

Interviews Questions to the Research Participants of the Law Enforcement Agencies  
(Police, Prosecutor, Customs Commission, Federal Ethics and Anti-corruption  
Commission)

**Dear research participant,** I am interviewing to get information on “Money Laundering and Its Countermeasures in Ethiopia”. This interview guideline is used for academic purposes only. I would like to assure you that the researcher adheres to the principles and values of the research process. Specifically, the principles of informed consent, no harm for research participants, privacy, and confidentiality of the research participant should be strictly maintained throughout the research process. Your response to any of the questions will not be given to anyone else and no report of the study ever identifies you. If a report of results is published, only information about the issue will appear.

I would like to appreciate you for giving me the time to conduct the interview. Finally, I ask your genuine response to each of the questions, for it will give life to the study result.

1. Is Ethiopia vulnerable to money laundering? What are the risk factors that contribute to such vulnerability?
2. What are the major sources of illicit money frequently committed in Ethiopia?
3. How the criminal entrepreneurs launder the proceeds or instrumentalities of crime?
4. What are the effects of money laundering on the country’s economy and security?
5. What are the key laws and institutions put in place to prevent and suppress money laundering?
6. How does the Ethiopian anti-money laundering laws evolve over the years?
7. How does the Ethiopian anti-money laundering system operate?
8. How adequate/effective are the laws and institutional arrangements in addressing the menace of money laundering?
9. What role do law enforcement agencies play in combating and preventing money laundering?
10. So far, what are the achievements of the law enforcement agencies in combating and preventing money laundering?

11. What limitations and challenges do the law enforcement agencies face in combating money laundering?
12. If you have any additional comments about money laundering and its countermeasures in Ethiopia, please welcome?

**Addis Ababa University**  
**Institute for Peace and Security Studies**

Interviews Questions to the Research Participants of Reporting Institutions (Banks,  
Micro-Finance, Money Transfer Agents, Insurance, Lawyers, Accountants, and Real  
Estate Dealers)

**Dear research participant,** I am interviewing to get information on “Money Laundering and Its Countermeasures in Ethiopia”. This interview guideline is used for academic purposes only. I would like to assure you that the researcher adheres to the principles and values of the research process. Specifically, the principles of informed consent, no harm for research participants, privacy, and confidentiality of the research participant should be strictly maintained throughout the research process. Your response to any of the questions will not be given to anyone else and no report of the study ever identifies you. If a report of results is published, only information about the issue will appear.

We would like to appreciate you for giving us your time to conduct the interview.

Finally, I ask your genuine response to each of the questions, for it will give life to the study result.

1. Is your institution vulnerable to money laundering? What are the factors that contribute to such vulnerability?
2. How the criminal entrepreneurs launder the proceeds of their predicate offenses?
3. How well do financial institutions and designated non-financial business and professions (DNFBPs) understand their money laundering risks and apply risk-based anti-money laundering measures?
4. What are the internal working procedures, structures, and systems your institution adopted to prevent and combat money laundering?
5. How do the financial institutions and DNFBPs gather specific information about their customers? How should it be recorded? To what extent is business refused when KYC/CDD is incomplete?
6. How well do financial institutions apply simplified or enhanced measures for (a) politically exposed persons, (b) correspondent banking, (c) new technologies, (d) wire transfers rules, and (e) higher-risk countries identified by the FATF?

7. To what extent do financial institutions and DNFBPs meet their reporting obligations on suspected proceeds of crime? When do these institutions have to file suspicious transactions report? What are the practical measures to prevent tipping-off?
8. To what extent do banks verify trade deals in providing foreign currency for traders and investors? What is their role in combating trade-based money laundering?
9. How do the financial institutions and DNFBPs work with their supervisory organs, law enforcement agencies, and the FIC in preventing and combating money laundering?
10. So far, what are the achievements of the reporting entities in combating and preventing money laundering?
11. What limitations and challenges are your institution facing-with in fulfilling its anti-money laundering obligations?
12. If you have any additional comments about money laundering and its countermeasures in Ethiopia, please welcome?

**Addis Ababa University**  
**Institute for Peace and Security Studies**

Interviews Questions Brought to the Research Participants of the National Bank of  
Ethiopia

**Dear research participant,** I am interviewing to get information on “Money Laundering and Its Countermeasures in Ethiopia”. This interview guideline is used for academic purposes only. I would like to assure you that the researcher adheres to the principles and values of the research process. Specifically, the principles of informed consent, no harm for research participants, privacy, and confidentiality of the research participant should be strictly maintained throughout the research process. Your response to any of the questions will not be given to anyone else and no report of the study ever identifies you. If a report of results is published, only information about the issue will appear.

We would like to appreciate you for giving us your time to conduct the interview. Finally, I ask your genuine response to each of the questions, for it will give life to the study result.

1. Is Ethiopia vulnerable to money laundering? What are the factors that contribute to such vulnerability?
2. What are the predicate offenses of money laundering frequently committed in Ethiopia?
3. How do the criminal entrepreneurs launder the proceeds of their criminal activities?
4. What are the effects of money laundering on the economy, social, political, and security of the country?
5. What are the normative frameworks and institutional arrangements the country put in place to prevent and mitigate the problem of money laundering?
6. How do you evaluate the effectiveness of the Ethiopian anti-money laundering system in addressing the problem of money laundering in Ethiopia?
7. What is the role of your institution in combating and preventing money laundering?
8. How your institution checks whether the reporting institutions comply with their anti-money laundering obligations?
9. How do the supervisory institutions work with their reporting entities, law enforcement agencies, and the FIC in preventing and combating money laundering?

10. So far, what are the achievements of the supervisory authorities in combating and preventing money laundering?
11. What limitations and challenges are your institution facing-with in fulfilling its anti-money laundering obligations?
12. If you have any additional comments about money laundering and its countermeasures in Ethiopia, please welcome?

**Addis Ababa University**  
**Institute for Peace and Security Studies**

Interviews Guidelines Brought to Professional Engaged in Conducting Research on  
Organized Crime and Money Laundering in the Horn and Eastern Africa Regions

**Dear research participant**, I am interviewing to get information on “Money Laundering and Its Countermeasures in Ethiopia”. This interview guideline is used for academic purposes only. I would like to assure you that the researcher adheres to the principles and values of the research process. Specifically, the principles of informed consent, no harm for research participants, privacy, and confidentiality of the research participant should be strictly maintained throughout the research process. Your response to any of the questions will not be given to anyone else and no report of the study ever identifies you. If a report of results is published, only information about the issue will appear.

We would like to appreciate you for giving us your time to conduct the interview. Finally, I ask your genuine response to each of the questions, for it will give life to the study result.

1. Is money laundering a threat to Ethiopia’s economy and security? What are the risk factors that contributed to the growth of money laundering in Ethiopia?
2. What are the major sources of illicit money commonly committed in Ethiopia?
3. How did criminals launder the proceeds or instrumentalities of their criminal activities?
4. What are the effects of money laundering on the country’s economic development, governance, and peace and security?
5. What countermeasures are taken by the government of Ethiopia to prevent and suppress the threat of money laundering?
6. How adequate are the country’s legal norms in tackling the threat of money laundering to the country’s economic stability and national security?
  - a) What are the existing legal norms?
  - b) How do they evolve?
  - c) Are the legal norms comprehensive? Is there any lacuna?
7. How effective are the country’s institutional arrangements in preventing and suppressing the threat of money laundering to the country?
  - a. What are the existing institutional arrangements?

- b. How do the anti-money laundering institutions operate?
  - c. Are the anti-money laundering institutions effective in dismantling the threat of money laundering?
  - d. How the country cooperates with other countries, international and regional organizations in combating money laundering–information sharing, mutual legal assistance, and extradition? The normative frameworks plus the operating system?
8. So far, what are the achievements of the Ethiopian anti-money laundering system in dismantling the threat of money laundering?
9. What are the limitations and challenges of the system?
10. If you have any further comments about money laundering and its countermeasures in Ethiopia, please welcome?

## **Appendix II: List of documents reviewed**

1. A Proclamation for the Suppression and Prevention of Money Laundering and Terrorist Financing No. 657/2009.
2. Agreement Establishing the Inter-Government Authority on Development
3. Authentication and Registration of Documents' Proclamation No. 922/2015.
4. Banking Business Proclamation No. 592/2008.
5. Banking (Amendment) Proclamation No. 1159/2019.
6. Cash Withdrawal Limit Directive No. FIS/03/2020
7. Corruption Crimes Proclamation No. 881/2015.
8. Criminal Code of the Federal Democratic Republic of Ethiopia Proclamation No. 414/2004.
9. Criminal Procedure Code of Ethiopia. Pub. L. No. Proclamation No.185
10. Customer Due Diligence of Banks Directives No. SBB/46/2010
11. Customs Proclamation No. 859/2014.
12. Designated Non-Financial Business and Professions' Anti-money Laundering and Countering the Financing of Terrorism Compliance Directives Number 02/2016.
13. Ethiopian Criminal Justice System Policy.
14. Ethiopian Federal Police Commission Establishment Proclamation No. 720/2011.
15. Federal Attorney-General Establishment Proclamation No. 943/2016.
16. Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014
17. Growth and Transformation Plan II (GTP II) (2015/16-2019/20).
18. IGAD Convention on Extradition
19. IGAD Convention on Mutual Legal Assistance in Criminal Matters

20. Insurance Business (Amendment) Proclamation No. 1163/2019.
21. International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation–The FATF Recommendations (Updated June 2019)
22. Investment Proclamation No. 1180/2020.
23. Licensing and Authorization of Payment Instrument Issuers Directive No. ONPS/01/2020
24. Licensing and Authorization of Payment System Operators Directive No. ONPS/02/2020
25. Limits on the Birr and Foreign Currency Holding in the Territory of Ethiopia Directives No. FXD/49/2017
26. Microfinance Business (Amendment) Proclamation No. 1164/2019.
27. National Anti-money Laundering and Combating the Financing of Terrorism Policy of 2019
28. National Financial Inclusion Strategy of 2017
29. National Money Laundering & Terrorism Financing Risk Assessment of 2016
30. National Payment System Proclamation No. 718/2011
31. Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 780/2013
32. Prevention and Suppression of Trafficking in Persons and Smuggling of Persons Proclamation No. 1178/2020
33. Registration of Vital Events and National Identity Card Proclamation No. 670 in 2012
34. Republic of Ethiopia Foreign Affairs and National Security Policy and Strategy of

2002

35. Suspicious Transactions Detection and Reporting Guidelines for Financial Institutions 02/2019
36. Sustainable Development Goals (SDGs)
37. The Constitution of the Federal Democratic Republic of Ethiopia
38. Transparency in Foreign Currency Allocation and Foreign Exchange Management Directives No. FXD/46/2017, an Amendment to Directives No. FXD/45/2016
39. UN Convention Against Corruption
40. UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
41. UN Convention Against Transnational Organized Crime
42. UNSC Resolution 1617 (2005)
43. ጉምሩክ ስራ ላይ በሚፈፀሙ ወንጀሎችን በአስተዳደራዊ ውሳኔ ለመጨረስ የወጣ መመሪያ ቁጥር 12/2001