



ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE

**Assessing the extent of compliance to Anti Money Laundering and
Countering Terrorist Financing (AML/TCF) standards in Ethiopia's
Commercial Banks: the case of Dashen Bank**

*A Project work Submitted to the School of Graduate studies of Addis
Ababa University School of Commerce in Partial Fulfillment of the
Requirements for the Degree of Master of Arts in Project
Management*

Prepared By: Frehiwot Getu

Advisor: Fesseha Afework (Asst. Prof)

June 2018

ADDIS ABABA

**ADDIA ABABA UNIVERSITY
SCHOOL OF COMMERCE
DEPARTMENT OF PROJECT MANAGEMENT**

**Assessing the extent of compliance to Anti Money Laundering and Countering
Terrorist Financing (AML/TCF) standards in Ethiopia's Commercial banks:
the case of Dashen Bank**

By

Frehiwot Getu

Approved Board Committee:

Examiner

Signature

Examiner

Signature

Advisor

Signature

DECLARATION

I declare that the project entitled “Assessing the extent of compliance to Anti Money Laundering and Countering Terrorist Financing (AML/CTF) standards in Ethiopia’s Commercial Banks: the case of Dashen Bank” is my original work and has not been presented for a degree in this university or any other university and that all sources of material used for the project have been duly acknowledged.

By: Frehiwot Getu

Date: June 2018

Signature: _____

Advisor: Fesseha Afewerk (Ast.Prof.)

Signature: _____

Date: _____

STATEMENT OF CERTIFICATION

This is to certify that Frehiwot Getu has carried out this research work on the topic entitled “Assessing the extent of compliance to Anti Money Laundering and Countering Terrorist Financing (AML/TCF) standards in Ethiopia ‘s commercial banks: the case of Dashen bank” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Degree of Masters of Art in Project Management.

Ast. Prof. Fesseha Afework

Signature _____

Date _____

Abstract

The main objective of this study is to assess the extent of compliance to Anti Money Laundering and countering terrorist financing (AML/TCF) standards that are being practiced in Dashen Bank .It assess the implementation of AML/TCF compliance program and the extent of ML/TF preventive measures (standards) practiced at Dashen Bank. Challenges that the bank faces while practicing AML/CTF is also addressed. The study adopted a descriptive approach and quantitative data were employed to address the objective. Both primary and secondary data was used. The quantitative data was collected through a structured questionnaire and document review. The Population for the study was all staffs of Risk Management and compliance Department of Dashen Bank, expecting that the Risk Management and Compliance Department employees would have adequate knowledge on ML/TF and subsequently have knowledge on the prevention measures adopted in the Bank. Since the total number of the staffs is 34, census method was employed. The collected data was computed using SPSS version 20. Percentage, mean, standard deviation and relevant statistical methods were employed. Moreover, tables and elaborations were used to present the findings. Based on 31 respondents this study found the overall establishment and implementation of AML/CTF compliance program of Dashen Bank is at moderate level. However the bank is weak in complying with the standards in allocation of adequate resource to the office of compliance and designating a Compliance Officer to coordinate AML/CFT training of employee. The implementation of ML/TF preventive measures of the bank is also at moderate level .The research revealed the Bank is weak in implementing automatic electronic customer/transaction screening, and hence weak in monitoring customers'/transaction and detecting suspicious transactions, Unusual and complex transactions as well as high risk regions throughout the bank's business units. Classification of customers according to their AML/CTF risk level is also the weakly complied standard. Further, the finding confirmed the less awareness of the society in AML/CTF, predominantly informal and cashed- economies of society and not having list of Political exposed person (PEP's) are among the major challenges the Bank faces while practice AML/CTF standards.

Key Words: *Money Laundering, Terrorist Financing, ML/TF Preventive Measures, compliance*

ACKNOWLEDGMENT

First and for most, I would like to give my praise to the Almighty God for his invaluable care and support throughout the course of my life.

Next, I would like to express my sincere gratitude to my advisor Fesseha Afework (Ast. Prof.) for his constructive comments, corrections and suggestion from the beginning of this project work to the end.

The lion share of my thank goes to my beloved family and friends, for their support and tolerance during the whole academic time. Thank you for everything you have done for me.

Acronym

AML/CTF:	Anti Money Laundering/Combating Terrorist Financing
ABCS:	About Business Crime Solutions
BoG :	Bank of Ghana
CDD:	Customer Due Diligence
CGCC:	Center on Global Counterterrorism Co-operation
ESAAML:	East and South Africa Anti Money Laundering Group
FATF:	Financial Action Task Force
FI:	Financial Institution
FSRBs:	FATF Style-Regional Bodies
FIC:	Financial Intelligence Center (Ethiopia)
GCCS	Global Center on Cooperative Security
GIABA	Inter-Governmental Action Group against Money Laundering in West Africa
IMF:	International Monetary Fund
KYC:	Know your Customer
ML/TF:	Money Laundering/ Terrorist Financing
NBE:	National Bank of Ethiopia
PEPs:	Politically Exposed Persons
RMCD:	Risk Management and Compliance Department
UN:	United Nations

Table of Content

CHAPTER ONE	1
1.1 INTRODUCTION	1
1.1.1 Background of the study	1
1.1.2 Background of the organization	2
1.1.3 Statement of the problem	3
1.1.4 Research Question	5
1.1.5 Objective of the study	5
1.1.6 Significance of the Study	5
1.1.7 Scope of the study	6
1.1.8 Limitation of the study	6
1.1.9 Definition of key Terms and Concepts	6
CHAPTER TWO	11
2.1 LITERATURE RIVIEW	11
2.1.1 Introduction	11
2.1.2 History of Money Laundering	11
2.1.3 Stages of Money Laundering	12
2.1.3.1 Placement:	12
2.1.3.2 Layering	12
2.1.3.3 Integration	13
2.1.4 Legal Framework to Prevent ML/TF	13
2.1.4.1 ML/TF Preventive Measures at Global Level	14
2.1.4.2 ML/TF Preventive Measures at Regional Level	17
2.1.5 AML/CTF Arrangements and Measures in Ethiopia	17
2.1.5.1 Financial Intelligence Center (FIC) & Efforts of Ethiopia to Prevent ML/TF	18
2.1.5.2 Compliance Function in Banks	19
2.1.6 Impacts of ML/TF	19
2.1.6.1 Impacts of ML/TF to the Economy	20
a) Undermining the Legitimate Private Sector:	20
b) Undermining the Integrity of Financial Markets:	20
c) Loss of Control of Economic Policy:	21
d) Economic Distortion and Instability	21
e) Loss of Revenue:	22
f) Risks to Privatization Efforts:	22
g) Reputation Risk:	22
2.1.6.2 The Adverse Implications of ML/TF	22
a) Increased Crime & Corruption	23
b) International consequences and foreign investment:	23
c) Social costs	24
2.1.7 Challenges of AML/CTF Implementation and Practices	24
2.1.8 Opportunities of AML/CTF Practices in Commercial Banks	25
2.1.9 Terrorism and consequences	26
2.1.10 Conceptual framework	28

CHAPTER THREE	29
3.1 METHODOLOGY	29
3.1.1 Research Approach	29
3.1.2 Research Design	29
3.1.3 Population of the study and Sampling Techniques	29
3.1.4 Data Sources and Types	30
3.1.5 Data Collection Instruments	30
3.1.5.1 Questionnaire	30
3.1.5.2 Document Review	30
3.1.6 Data Collection Procedures	30
3.1.7 Ethical Consideration	31
3.1.8 Data Analysis	31
3.1.9 Reliability	31
CHAPTER FOUR	32
4.1 FINDINGS, INTERPRETATION AND DISCUSSION OF RESULTS	32
4.1.1 Introduction	32
4.1.2 Respondent's Demographic Data	32
4.1.3 Implementation of AML/CTF compliance program	33
4.1.4 ML/TF Preventive Measures	35
4.1.5 AML/CTF implementation challenges	38
4.1.6 Findings of the open-ended Questions	40
4.1.7 Document review	40
CHAPTER FIVE	41
5.1 SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS	41
5.1.1 Summary of finding	41
5.1.2 Conclusion	42
5.1.3 Recommendations	44

CHAPTER ONE

1.1 INTRODUCTION

1.1.1 Background of the study

Money laundering and terrorism financing pose a significant threat to security and developmental efforts worldwide and increasingly undermine the integrity of the global financial system and its long-term stability. Many states in the Greater Horn of Africa region are experiencing rapid economic growth and have increasing access to global markets. With predominantly informal and cash-based economies, those states like Ethiopia are particularly vulnerable to money laundering and terrorism financing activities (Liat et al., 2015).

If money laundering and terrorism financing are not controlled and eliminated, the future can increase corruption, worsen poverty, rendering financial institutions vulnerable, destabilize countries and adversely affect domestic as well as foreign direct investments to countries involved at the expense of ordinary citizens (Chutia, 2013).

According to FATF (2012-2018), money laundering and terrorist financing brought distressing impact and hence FATF come up with legally binding recommendations (40+9) to deal with the issue of the funding of terrorist acts and terrorist organizations in 2001. FATF recommendations have been revised to address new and emerging threats and to clarify and strengthen many of the existing obligations. The FATF recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorism financing. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances. 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;
- 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 requires the implementation of AML measures since the duties of banks are relatively more transnational than other the remaining financial service. This unique nature attracts money launderers and terrorist financers. For countries that do not comply with FATF's recommendations, economic sanction is stated as a sanction toward enforcement. This sanction has adverse impacts on the economy of a nation as screening imports and exports are complicated (FATF, 2013).

1.1.2 Background of the organization

Dashen Bank S.C is privately owned company established in 1995 in accordance with “licensing and Supervision of Banking Business” Proclamation No.84/94 now superseded by proclamation No.592/2008, “A proclamation to provide for Banking Business” to undertake commerce banking activities. The Bank obtained its license from the National Banking of Ethiopia (NBE) on 20 September 1995 and started normal business activities on 1 January 1996. It operates through its Head Office in Addis Ababa and 303 branches, 6 Foreign Exchange Bureaus, 837 Point of Sale (PoS) terminals and 205 Automatic Teller Machines (ATMs) located in and outside Addis Ababa.

The bank managed to generate total revenue of Birr 3.4 billion. The total expense during the period was 2.4 billion. As a result, the Bank was able to generate gross profit of 980 million. Accordingly the Bank has made a profit tax payment of Birr 223.7 million to the government coffer. The earnings per share stood at Birr 392. The paid-up capital of the Bank as at the yearend of the period under consideration grew to Birr 1.93 billion, which in turn raise the primary capital of the Bank to Birr 3.4 Billion. During the period the Bank's staff (Including long term and short term contract employee stood 7,297. (Annual report of Dahren Bank S.C for the year ended June 30, 2017)

Regarding the international banking, established business relationship with eight international money transfer operators namely Western Union, Money Gram, Xpress Money, Dahabshiil, EzRemit, TransFast, and Ria and KAAH Express . Dashen Bank has established correspondent banking relationship with 461 banks scattered across 172 cities in 72 countries. (Annual report of Dahan Bank S.C for the year ended June 30, 2017).

1.1.3 Statement of the problem

The world has experienced phenomenal growth of financial services over the last couple of decades. This globalization has led to increased cross-border activities enhancing global financial intermediation. Unfortunately, this development has been accompanied by a spate of transnational organized crime including Money Laundering and Terrorist Financing (ML/ TF) perpetuated by underground economies. Money Laundering and Terrorist Financing affect whole economies, and therefore impact negatively on the economic, political and social development, posing serious challenges to all countries (Tu'emay, 2013).

The AML/CFT legal framework in Ethiopia was created in 2009, following the enactment of proclamation N0.657 and Financial Intelligence Center (FIC) was established subsequent to the promulgation of the AML law by the Council of Ministers, Regulation No. 171. The FIC began operation almost at the end of 2011 and had been designated as the central authority for handling money laundering, terrorist financing, and other related matters in the country (Tu'emay, 2013).

According to Tu'emay (2013) the National Bank of Ethiopia (NBE) has introduced and applied customer due diligence (CDD) standards across all banks and supervises the financial sector's compliance activities as required by the AML law and related legislation and all banks have created compliance units that oversee AML/CFT measures as a result of requirements by the National Bank of Ethiopia (NBE). AML/CFT efforts are important for strengthening the integrity of the financial sector, macroeconomic stability, and national security. Nevertheless, despite the important improvements Ethiopia has made and is progressively continuing to achieve, concerns remain regarding inadequately addressed sections of the AML/CFT framework and its lack of compliance with international standards.

Proclamation No. 657/2009 is repealed by proclamation No. 780/2013 and NBE CDD

046/2010 replaced by FIC AML/CFT compliance Directive No. 01/2014, as a result, commercial banks in the country are required to comply with what are required nationally and globally.

NBE Banking Supervision Directorate (2015) reported the weakness of internal control at Dashen Bank as there were high fraud incidents (over Birr 9.6Million), litigation against the bank (Litigations of Birr 16.63 million) and existence of persist operational discrepancies which exposes the Bank to operational risk .And also the internal audit/control function did not perform as per its plan as only 70% the working units were inspected from the planned during the fisical end 2014 which has an impact of failure to exhaustively identify and monitor risks. The coverage of internal audit/inspection was very limited as risk management and compliance function.

Effective internal control is critical component of bank management as foundation for the safe and sound operation of banking organizations. The analysis of the problems related to significant losses incurred by several banking, indicate they could probably have been avoided had the bank maintained effective internal control system (Basel, 2014).

In adequacy or absence of strong internal control and risk management exposes financial institutions to undue reputational, Operational, legal and concentration risks that may result from abuse of money launderers and terrorism financiers (FIC, 2014).

According to Audit report (2017), the compliance risk management framework and guide line were not amended since it was developed based on Directives No. SBB/46/2010 after the issuance of the new directive “financial Anti-Money Laundering and countering the financing of terrorism compliance directive No.01/2014 issued by FIC of Ethiopia.

The Existence of weakness of internal control, High fraud incidents and litigation against the Bank, existence of persist operational discrepancies which exposes the Bank to operational risk , un coverage of auditable areas by internal audit function which has an impact of failure to exhaustively identifying and monitoring risk, the limited coverage of internal audit/inspection to risk management and compliance function were not indicated in relation with the compliance of the Bank to AML/CTF standards.

This study is conducted to assess the extent of Dashen Bank's compliance to anti money laundering and countering terrorist financing (AML/CFT) standards.

1.1.4 Research Question

To gain a comprehensive understanding of the extent of compliance to anti money laundering and countering terrorist financing (AML/CFT) standards by the bank, the following specific research questions need to be addressed.

- a) What is the current practice AML/CFT program implementation in Dashen Bank?
- b) How do Dashen Bank Comply to AML /CFT regulations?
- c) What are the factors affecting AML /CFT regime practice in Dashen Bank?

1.1.5 Objective of the study

The study has the general and specific objectives.

The general objective of the study is to assess the extent of compliance to anti money laundering and countering terrorist financing (AML/CFT) standards by Dashen Bank.

The specific objectives of the study are to:

- a) Asses the current practice of AML/CFT program implementation in Dashen Bank?
- b) Assess to what extent Dashen Bank complies to AML/CFT regulations?
- c) Identify the factors that affect practice of AML/CFT regime in Dashen Bank.

1.1.6 Significance of the Study

The study has the following significance

- It gives a chance to the Bank to see the gap and to strengthen internal control and risk management system to prevent the Bank from exposure to reputational, operational, legal and concentration risk that may result from the abuse of money launderers and terrorist financiers;
- It gives clear understanding to those who have concern about the existing practice of the bank to AML/CTF standards.

- It gives starting point for concerned organizations /regulatory bodies (FIC, NBE, Policy makers ...) to reassess AML/CTF existing practice in Ethiopia's commercial banks and to take the necessary actions to adjust the gap.
- It initiates other researchers to carry out more extensive studies on the area in Ethiopia's commercial banks
- It serves as a reference material

1.1.7 Scope of the study

This study is limited to assess the extent of compliance only to anti money laundering and countering terrorist financing (AML/CFT) standards. It is also limited to the financial institution and the selected bank only (Dashen Bank).Issues of implementation of compliance program; the level of Compliance and the challenges of implementing AML/CFT regime will be analyzed.

1.1.8 Limitation of the study

One of the limitations of this research might be lack of cooperation of the respondents and their commitment to completely fill the questionnaires in. The researcher may also face difficulties to get sufficient data in relation with money laundering and Terrorism financing in the country.

1.1.9 Definition of key Terms and Concepts

Terms and concepts listed and defined below are taken out from Proclamation No. 780/2013 prevention and Suppression of Money Laundering & Financing of Terrorism Proclamation, FATF (2012-2018) International Standards on Combating Money Laundering and The Financing of Terrorism and Proliferation, and Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives No.01/2014.

Money Laundering

It is the offence, or any person who knows or should have known that a property is the proceed of a crime and who converts or transfers the property for the purpose of concealing or disguising the illicit origin of the property or transfers or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequence of his actions; conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to the property; acquires, possesses or uses the property; or 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 offence.(Proc,2013&FIC,2014).

Terrorist Financing

Any person who by any means, directly or indirectly, willfully, provides or collects funds, or attempts to do so, with the intention that they should be used or with the knowledge that they are to be used in full or in part: to carry out a terrorist act; or by a terrorist; or by a terrorist organization; participates as an accomplice in an offence; organizes or directs others to commit an offence; or 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 offence(Proc,2013&FIC,2014).

FATF

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse (FATF, 2012).

Financial institutions

Bank, insurance companies, micro finances, post office, security firms, forex bureaus, and money remitters (FATF, 2003, FIC Proc. 780/2013 and FIC Directive No. 1/2014).

Know Your Customer (KYC)

KYC under AML/CTF legislation, KYC refers to documentation which sets out a business's approach to ensuring that it can effectively identify, verify and monitor its customers and the financial transactions in which they engage, relative to the risks of money laundering and terrorism financing. KYC policies ensure that financial businesses can effectively identify, verify and monitor customers and customer-driven transactions, and implement risk management processes to effectively manage customer-driven risk (FATF, 2014).

Customer Due Diligence (CDD)

Under AML/CTF legislation, reporting entities must monitor their customers with a view to identifying, mitigating and managing the potential risks of money laundering or financing of terrorism (FATF, 2014).

Politically Exposed Persons (PEPs)

"Politically exposed person" means any natural person who is or has been entrusted with prominent public functions in any country or in an international organization as well as a member of such person's family or any person closely associated with him (proc 780, 2013)

Wire Transfer

Any transaction carried out on behalf of an, originator person through a financial institution by electronic means with a view to making an amount of money available to a beneficiary at another financial institution (FIC, 2014)

Suspicious Transaction

Transactions one which is unusual because of its size, volume type or pattern or otherwise suggestive of known money laundering, predicate offense or terrorist financing methods

Compliance

A program that ensures and monitors compliance with stated laws, regulations, rules, policies and its implementing procedures, including record keeping and reporting requirements. Such a program can help protect a bank against possible criminal and civil penalties and asset forfeitures. At a minimum, a bank's internal compliance program must be written, approved by the board of directors, and noted as such in the board meeting minutes. The program must include: a system of internal controls to ensure ongoing compliance, independent testing of compliance, daily coordination and monitoring of compliance by a designated person, and training for appropriate personnel (FATF, 2012).

The FATF Recommendations (40+9)

FATF Recommendations are the international standards set by the FATF to combat money laundering, terrorist financing, and the financing of proliferation. It covers the comprehensive set

of measures that countries should have in place within their criminal justice and regulatory systems; the preventive measures to be taken by financial institutions and other businesses and professions; measures to ensure transparency on the ownership of legal persons and arrangements; the establishment of competent authorities with appropriate functions, and powers and mechanism for cooperation; and arrangements to cooperate with other countries.

Public Statement (Black List)

A country that has that serious deficiency in implementing the AML/CFT system is categorized as Public Statement by FATF. Countries listed to the public might have economic consequences due to the application of recommendation. Herein, the FATF recommends its members ‘to give special attention to business relation and transactions with persons including financial institutions from non-cooperative countries or territories’. The Public Statement list functions as ‘shaming character’ which is used to enforce non-cooperative countries implement the FATF’s standard (FATF, 2001).

Financial Sanctions

Financial sanctions are normally one element of a package of measures used by the international community like the UN to forbid, restrict or otherwise influence the provision of financial services to certain individuals, countries, regions, and entities to prevent and suppress financial crime (FATF, 2013).

Organization of the study

Ethiopia has circulated different rules and regulation, proclamation and directives by adapting FATF’s standard to limit the practice of money laundering and terrorist financing in financial service .As a result banks are required to implement the laws and to play their role to prevent funding of terrorism and money laundering through the abuse of banks.

Therefore, this research is organized in five chapters in order to address the compliance of Dashen Bank to AML/CTF Standards.

Chapter one: Introduction

This chapter contains the background of the study and the organizations; statement of the problem, basic research questions, objectives and significance of the study, scope and limitation of the study, and definition of key terms.

Chapter Two: Review of Related Literature

This part of the study deals with the literature relevant to the proposed study and conceptual framework.

Chapter Three: Research Methodology of the Study

In this chapter the researcher described the research design, study participants, data collection instruments, data collection procedure, method of data analysis, and ethical considerations of the study.

Chapter Four: Results and discussion

This chapter would summarize the results, and findings of the study; interpretation and discussion of the findings.

Chapter Five: Summary, Conclusions and Recommendations

It is a chapter that comprises the summery of findings, conclusions and recommendation of the study.

CHAPTER TWO

2.1 LITERATURE RIVIEW

2.1.1 Introduction

Money laundering and financing of terrorism are global problems not only threaten security but also jeopardize stability, transparency and efficiency of government systems by undermining economic prosperity, Money laundering & financing of terrorism weaken the financial system which are the main players for global financial transactions (Vaithilingam and Nari, 2007).

Theoretical review

2.1.2 History of Money Laundering

The history of money laundering is, primarily, that of hiding money or assets from the state—either from blatant confiscation or from taxation. Over a period of thousands of years people have use money laundering techniques to move money resulting from crime—but also often to hide and move it out of reach of government— including oppressive regimes and deposit leaders (Nigle, 2015).

Money laundering was originated in 1920's during the period of prohibition in the United State. The organized criminals in the United States got greatly involved in the profitable alcohol smuggling industry and for legalizing their profits they stated combining their profits with the profits from legislative business (Teacher low, 2013).To illustrate, it is originated from Mafia ownership of Laundromats in the United States. Gangsters, there, were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor, and they needed to show a legitimate source for this income (Stell et al, 2005).One of the ways in which they were able to do this was by purchasing outwardly legitimate businesses and mixing their illicit earnings with the legitimate earnings they received from them. Laundromats were chosen by these gangsters because they were cash businesses. Laundromats also provide an apt analogy for the process of legitimizing earnings: illegal (dirty) money is put through a cycle transactions (washed), so that it comes out the other end as legal (clean) money.

2.1.3 Stages of Money Laundering

Money laundering is the process of making dirty money clean. Money is moved around the financial system so many times 'to launder' that its origins (drugs, serious crimes) get obscured and it appears to have originated from legal sources (Bedi, 2006).

The highly complex process of money laundering generally consists of three stages which may overlap. The stages are placement, layering and integration.

2.1.3.1 Placement: entry of funds into the banking service

Placement covers cash and monetary instruments deposits including bearer instruments. This stage represents the initial entry of the “dirty” cash or proceeds of crime in to financial system.

Generally this stage serves two purposes (a) it relieves the criminal of holding and guarding large amounts of bulky of cash; (b) it places the money into the legitimate financial system. It is during the placement stage that money launderers are the most vulnerable to being caught. This is due to the fact that placing large amounts of money (cash) into the legitimate financial system may raise suspicions of officials (ABCS, 2017).

However, the placement of funds in to the financial system has become increasingly difficult to discover due to the large number of ways to accomplish it (Modelyn, 2000).

2.1.3.2 Layering: distancing of funds from point of entry

Layering covers funds transferring including linked and involved complex offshore ownership structure and accents across multiple jurisdictions involving many people. Layering stage sometimes referred to as structuring .It is the most complex and often entails the international movement of funds. The primary purpose of this stage is to separate the illicit money from its source. This is done by the sophisticated layering of financial transactions that obscure the audit trail and sever the link with the original crime (ABCS, 2017).

Different technique like loan at low or no interest rate, money exchange offices, correspondent banking, fictitious shares and trust offices are utilized for the purpose of laundering the money at this particular juncture (Vijay, 2009).

2.1.3.3 Integration: usage of funds

Integration covers investments in properties, securities, and legitimate businesses etc. and typically involves longer-term investments. It is at the integration stage where the money is returned to the criminal from what seem to be legitimate sources. Having been placed initially as cash and layered through a number of financial transactions, criminal proceeds are now fully integrated in to the financial system and can be used for any purpose (ABCS, 2017).

ABCS (2017) states that there are many different ways in which the launderer money can be integrated back with the criminal; however the major objective at this stage is to reunite the money with the criminal in a manner that does not draw attention and appears to result from a legitimate source.

2.1.4 Legal Framework to Prevent ML/TF

Despite the fact that the term ‘money laundering’ may have originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the dawn of banking itself (Doyle, 2002).

However, money laundering became an issue both at national and international level with the rise of world-wide drug trafficking in the 1980’s and the money laundering operation associated activity and on those involved in it attempting both to stop criminals profiting from their crimes and to trace back those proceeds in order to reach the kingpin (Quillen, 1991).

International AML/CFT standards have entered a new stage of maturity. When FATF issued the revised standard in 2003 and a new round of compliance evaluations was launched worldwide by various assessor bodies (Ian and Haba, 2006).

Ian and Haba (2006) states the AML/CFT standard is an amalgamation of measures that can be summarized as follows: (1) criminalization of money laundering and terrorist financing, (2) setting up freezing, seizing and confiscation systems, (3) imposing preventive regulatory requirements on a number of businesses and professions, (4) establishing an FIU, (5) creating an effective supervisory framework, (5) setting up channels for domestic cooperation, and (6) setting up channels for international cooperation.

The system purports to achieve a multiplicity of objectives: (1) removing profit out of crime through confiscation, (2) detecting crime by following the money trail, (3) targeting third party or professional launderers who through their services allow criminals to retain the proceeds of their crime, (4) targeting the upper echelons of the criminal organization whose only connection to the crime is the money trail, and (5) protecting the integrity of the financial system against abuse by criminals

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

2.1.4.1 ML/TF Preventive Measures at Global Level

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system. In collaboration with other international stakeholders, the FATF also works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.

The FATF Recommendations set out a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries have diverse legal, administrative and operational frameworks and different financial systems, and so cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances. 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;
- 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.

The original FATF Forty Recommendations were drawn up in 1990 as an initiative to combat the misuse of financial systems by persons laundering drug money. In 1996 the Recommendations were revised for the first time to reflect evolving money laundering trends and techniques, and to broaden their scope well beyond drug-money laundering. In October 2001 the FATF expanded its mandate to deal with the issue of the funding of terrorist acts and terrorist organizations, and took the important step of creating the Eight (later expanded to Nine) Special Recommendations on Terrorist Financing. The FATF Recommendations were revised a second time in 2003, and these, together with the Special Recommendations, have been endorsed by over 180 countries, and are universally recognized as the international standard for anti-money laundering and countering the financing of terrorism (AML/CFT).

Following the conclusion of the third round of mutual evaluations of its members, the FATF has reviewed and updated the FATF Recommendations, in close co-operation with the FATF-Style Regional Bodies (FSRBs) and the observer organizations, including the International Monetary Fund, the World Bank and the United Nations. The revisions address new and emerging threats, clarify and strengthen many of the existing obligations, while maintaining the necessary stability and rigor in the Recommendations.

The FATF Standards have also been revised to strengthen the requirements for higher risk situations, and to allow countries to take a more focused approach in areas where high risks remain or implementation could be enhanced. Countries should first identify, assess and understand the risks of money laundering and terrorist finance that they face, and then adopt appropriate measures to mitigate the risk. The risk-based approach allows countries, within the framework of the FATF requirements, to adopt a more flexible set of measures, in order to target their resources more effectively and apply preventive measures that are commensurate to the nature of risks, in order to focus their efforts in the most effective way.

Combating terrorist financing is a very significant challenge. An effective AML/CFT system, in general, is important for addressing terrorist financing, and most measures previously focused on terrorist financing are now integrated throughout the Recommendations, therefore obviating the need for the Special Recommendations. However, there are some Recommendations that are unique to terrorist financing, which are set out in Section C of the FATF Recommendations. These are: Recommendation 5 (the criminalization of terrorist financing); Recommendation 6 (targeted financial sanctions related to terrorism & terrorist financing); and Recommendation 8 (measures to prevent the misuse of non-profit organizations). The proliferation of weapons of mass destruction is also a significant security concern, and in 2008 the FATF's mandate was expanded to include dealing with the financing of proliferation of weapons of mass destruction. To combat this threat, the FATF has adopted a new Recommendation (Recommendation 7) aimed at ensuring consistent and effective implementation of targeted financial sanctions when these are called for by the UN Security Council.

The FATF Standards comprise the Recommendations themselves and their Interpretive Notes, together with the applicable definitions in the Glossary. The measures set out in the FATF Standards should be implemented by all members of the FATF and the FSRBs, and their implementation is assessed rigorously through Mutual Evaluation processes, and through the assessment processes of the International Monetary Fund and the World Bank – on the basis of the FATF's common assessment methodology. Some Interpretive Notes and definitions in the glossary include examples which illustrate how the requirements could be applied. These examples are not mandatory elements of the FATF Standards, and are included for guidance only. The examples are not intended to be comprehensive, and although they are considered to be helpful indicators, they may not be relevant in all circumstances.

The FATF also produces Guidance, Best Practice Papers, and other advice to assist countries with the implementation of the FATF standards. These other documents are not mandatory for assessing compliance with the Standards, but countries may find it valuable to have regard to them when considering how best to implement the FATF Standards. A list of current FATF Guidance and Best Practice Papers, which are available on the FATF website, is included as an annex to the Recommendations.

The FATF is committed to maintaining a close and constructive dialogue with the private sector, civil society and other interested parties, as important partners in ensuring the integrity of the financial system. The revision of the Recommendations has involved extensive consultation, and has benefited from comments and suggestions from these stakeholders. Going forward and in accordance with its mandate, the FATF will continue to consider changes to the standards, as appropriate, in light of new information regarding emerging threats and vulnerabilities to the global financial system.

The FATF calls upon all countries to implement effective measures to bring their national systems for combating money laundering, terrorist financing and the financing of proliferation into compliance with the revised FATF Recommendations (FATF, 2012/2018).

2.1.4.2 ML/TF Preventive Measures at Regional Level

The purpose of the Eastern and southern Africa Anti Money Laundering Group (ESAAMLG) is to combat money laundering by implementing the FATF Recommendations. This effort includes co-coordinating with other international organizations concerned with combating money laundering, studying emerging regional typologies, developing institutional and human resource capacities to deal with these issues, and coordinating technical assistance where necessary. ESAAMLG enables regional factors to be taken into account in the implementations of anti money laundering measures.

ESAAMLG was launched at a meeting of Minister and high level representatives in Arusha, Tanzania, on 26-27 August 1999. A memorandum of understanding (MoU) based on the experience of the FATF and other FATF-style regional bodies was agreed to at that meeting. Following the signature of the MoU by seven of the potential members, ESAAMLG came into formal existence. All members are commonwealth countries which have committed to FATF forty Recommendations. ESAAMLG became an Associate Member of FATF in June 2010 (ESAAMLG, 2009).

2.1.5 AML/CTF Arrangements and Measures in Ethiopia

Globalization urges nations to enhance communications and relations to import and export their goods/products they want to exchange each other. Despite the benefits of globalization,

prevalence of crime, such as ML/CT is the other face of it. To prevent this common problem, FATF is authorized to make policies (FATF, 2014). In this regard, Ethiopia agreed the FATF's request and established Financial Intelligence Unit named Financial Intelligence Center.

2.1.5.1 Financial Intelligence Center (FIC) & Efforts of Ethiopia to Prevent ML/TF

The AML/CFT legal framework in Ethiopia was established in 2009 following the enactment of Proclamation No. 657, even though Ethiopia had already criminalized money laundering in the revised Criminal Code of 2005. Ethiopia established its Financial Intelligence Centre (FIC) subsequent to the promulgation of the AML law by the Council of Ministers, Reg. No. 171/2010.

The FIC began operations almost at the end of 2010 and had been designated as the central authority for handling money laundering, terrorist financing, and other related matters in the country. National Bank of Ethiopia, following the FIC's Proclamation, prepared Customer Due Diligence Directive No. 46/20 10 and instructed all financial institutions to implement it (Tu'emay, 2013).

Tu'emay (2013) states Ethiopia has ratified a number of regional and international instruments that directly support its AML/CFT regime, including

- UN transnational organized crime Convention,
- UN Vienna Convention against drugs and psychotropic substances and related protocols,
- Organization of African Unity anti-corruption conventions,
- IGAD mutual legal assistance convention,
- IGAD extradition convention, and
- UN action plan that committed Ethiopia to implement UN Security Council Resolutions 1267 and 1373 UN Security Council.

Currently, Proc. 657/2009 and Directive NBE CDD No. 046/20 10 are repealed and replaced by Proclamation No. 780/2013 and AML/CTF Compliance FIC Directive No. 01/2014. Consequently, FIC is expected to have been discharging its responsibilities by adopting FATF's 40+9 Recommendations together with the legal contents of the Proclamation and Directives.

2.1.5.2 Compliance Function in Banks

Countries should have national AML/CFT policies which are informed by the risks identified, and are regularly reviewed and also Countries should designate an authority or have a co-ordination or other mechanism that is responsible for national AML/CFT policies. Financial institutions should be required to implement programmes against ML/TF, which have regard to the ML/TF risks and the size of the business, and which include compliance management arrangements (including the appointment of a compliance officer at the management level(FATS,2013/2018).

Banking activities are borderless. Due to these unique banking features of international aspects and as per the NBE's enquiry, Ethiopia's commercial banks have started performing AML/CTF tasks 2010. To discharge these responsibilities, commercial banks have been legally required to establish Compliance Units by designating Compliance Officers at the Senior Management Level to be responsible for issuing compliances (FIC, 2014). This type of practice is common worldwide in banks. For instance, Basel stated by No.24 as, bank compliance officer shall be independent; each bank should have an executive or senior staff member with overall responsibility for co-coordinating the identification and management of the bank's compliance risk and for supervising the activities of other compliance function staff (Basel, 2005).

All Ethiopia's commercial banks have formed their own Compliance Units by authorizing them to control ML/TF crimes, prepare policies and procedures, report CRTs and STRs to FIC, keep records, train employees and measure compliance risks(Tu'emay ,2013).

2.1.6 Impacts of ML/TF

Money laundering and terrorist financing can threaten a country's economic stability. The illicit activities can discourage foreign investment and distort international capital flows. They may also result in welfare losses, draining resources from more productive economic activities and even have destabilizing effects on the other countries (IMF, 2017).

The negative economic effects of money laundering on economic development can be qualified in terms of three sectors of the economy: financial, real and external. Money laundering damages the financial-sector institutions that are critical to economic growth (internal corruption &

reputational damage); reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth; distorts the economy's external sector international trade and capital flows (reputational damage & market distortion) to the detriment of long-term economic development. Developing countries' strategies to establish offshore financial centers (OFCs) as vehicles for economic development are also impaired by significant money laundering activity through OFC channels. Effective anti-money-laundering policies reinforce a variety of other good governance policies that help sustain economic development, particularly through the strengthening of the financial sector (John and Gary, 2001).

2.1.6.1 Impacts of ML/TF to the Economy

According to the U.S Department of State, there are seven, main consequences an economy faces when confronted with money with money laundering (John and Gary, 2001).

a) Undermining the Legitimate Private Sector:

One of the most serious microeconomic effects of money laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates. In some cases, front companies are able to offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage over legitimate firms that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate business to compete against front companies with subsidized funding, a situation that can result in the crowding out of private sector business by criminal organizations. Clearly, the management principles of these criminal enterprises are not consistent with traditional free market principles of legitimate business, which results in further negative macroeconomic effects.

b) Undermining the Integrity of Financial Markets:

Financial institutions that rely on the proceeds of crime have additional challenges in adequately managing their assets, liabilities, and operations. For example, large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, through wire transfers in response to non-market factors, such as enforcement operations. This can result in

liquidity problems and runs on banks. Indeed, criminal activity has been associated with a number of bank failures around the globe, including the failure of the first Internet bank, the European Union Bank. Furthermore, some financial crises of the 1990s — such as the fraud, money laundering, and bribery scandal at BCCI and the 1995 collapse of Barings Bank as a risky derivatives scheme carried out by a trader at a subsidiary unit had significant criminal or fraud components.

c) Loss of Control of Economic Policy:

Michel Camdessus, the former managing director of the International Money Fund, has estimated that the magnitude of money laundering is between 2 and 5 percent of world gross domestic product. In some emerging market countries, these illicit proceeds may dwarf government budgets, resulting in a loss of control of economic policy by governments. Indeed, in some cases, the sheer magnitude of the accumulated asset base of laundered proceeds can be used to corner markets or even small economies. Money laundering can also adversely affect currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher. And money laundering can increase the threat of monetary instability due to the misallocation of resources from artificial distortions in asset and commodity prices. In short, money laundering and financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates. The unpredictable nature of money laundering, coupled with the attendant loss of policy control, may make sound economic policy difficult to achieve.

d) Economic Distortion and Instability

Money launderers are not interested in profit generation from their investments but rather in protecting their proceeds. Thus they “invest” their funds in activities that are not necessarily economically beneficial to the country where the funds are located. Furthermore, to the extent that money laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer. In some countries, for example, entire industries, such as construction and hotels, have been financed not because of actual demand, but because of the short-term interests of money launderers. When these

industries no longer suit the money launderers, they abandon them, causing a collapse of these sectors and immense damage to economies that could ill afford these losses.

e) Loss of Revenue:

Money laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.

f) Risks to Privatization Efforts:

Money laundering threatens the efforts of many states to introduce reforms into their economies through privatization. Criminal organizations have the financial wherewithal to outbid legitimate purchasers for formerly state-owned enterprises. Furthermore, while privatization initiatives are often economically beneficial, they can also serve as a vehicle to launder funds. In the past, criminals have been able to purchase marinas, resorts, casinos, and banks to hide their illicit proceeds and further their criminal activities.

g) Reputation Risk:

Nations cannot afford to have their reputations and financial institutions tarnished by an association with money laundering, especially in today's global economy. Confidence in markets and in the signaling role of profits is eroded by money laundering and financial crimes such as the laundering of criminal proceeds, widespread financial fraud, insider trading of securities, and embezzlement. The negative reputation that results from these activities diminishes legitimate global opportunities and sustainable growth while attracting international criminal organizations with undesirable reputations and short-term goals. This can result in diminished development and economic growth. Furthermore, once a country's financial reputation is damaged, reviving it is very difficult and requires significant government resources to rectify a problem that could be prevented with proper anti-money-laundering controls.

2.1.6.2 The Adverse Implications of ML/TF

John and Gary (2001), states that Money laundering has a corrosive effect on a country's economy, government, and social well-being. Some of the negative impacts are.

a) Increased Crime & Corruption

Successful money laundering helps make criminal activities profitable. Thus, to the extent that a country is viewed as a haven for money laundering, it is likely to attract criminals and promote corruption. Havens for money laundering and terrorist financing have:

- a weak AML/CFT regime;
- some or many types of financial institutions that are not covered by the AML/CFT framework;
- little, weak or selective enforcement of AML/CFT;
- ineffective penalties, including difficult confiscation provisions; and
- a limited number of predicate crimes for money laundering.

If money laundering is prevalent in a country, it generates more crime and corruption. It also enhances the use of bribery in critical gateways, such as: employees and management of financial institutions, lawyers and accountants, the legislature, enforcement agencies, supervisory authorities, police authorities, prosecutors, and the courts.

A comprehensive and effective AML/CFT framework, together with timely implementation and effective enforcement, on the other hand, reduce the profitable aspects of criminal activity and, in fact, discourage criminals and terrorists from utilizing a country. This is especially true when the proceeds from criminal activities are aggressively confiscated and forfeited as part of a country's AML/CFT framework.

b) International consequences and foreign investment:

A reputation as a money laundering or terrorist financing alone, could cause significant adverse consequences for development in a country. Foreign financial institutions may decide to limit their transactions with institutions from money laundering havens; subject these transactions to extra scrutiny, making them more expensive; or terminate correspondent or lending relationships altogether. Even legitimate businesses and enterprises from money laundering havens may suffer from reduced access to world markets or access at a higher cost due to extra scrutiny of their ownership, organization and control systems.

Any country known for lax enforcement of AML/CFT is less likely to receive foreign private investment. For developing nations, eligibility for foreign governmental assistance is also likely to be severely limited.

Finally, the Financial Action Task Force on Money Laundering maintains a list of countries that do not comply with AML requirements or that do not cooperate sufficiently in the fight against money laundering. Being placed on this list, known as the Non-Cooperating Countries and Territories (NCCT) list, gives public notice that the listed country does not have in place even minimum standards. Beyond the negative impacts referred to here, member countries of FATF could also impose specific counter-measures against a country that does not take action to remedy its AML/CFT deficiencies.

c) Social costs

There are significant social costs and risks associated with money laundering. Money laundering is a process vital to making crime worthwhile. It allows drug traffickers, smugglers, and other criminals to expand their operations. This drives up the cost of government due to the need for increased law enforcement and health care expenditures for example, for treatment of drug addicts to combat the serious consequences that result. Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. In short, it turns the old adage that crime doesn't pay on its head. Furthermore, the sheer magnitude of the economic power that accrues to criminals from money laundering has a corrupting effect on all elements of society. In extreme cases, it can lead to the virtual take-over of legitimate government.

Overall, money laundering presents the world community with a complex and dynamic challenge. Indeed, the global nature of money laundering requires global standards and international cooperation if we are to reduce the ability of criminals to launder their proceeds and carry out their criminal activities.

2.1.7 Challenges of AML/CTF Implementation and Practices

An effective AML/CFT system normally requires certain structural elements to be in place, for example: political stability; a high-level commitment to address AML/CFT issues; stable institutions with accountability, integrity, and transparency; the rule of law; and a capable, independent and efficient judicial system.” The lack of such structural elements, or significant weaknesses and shortcomings in the general framework, may significantly hinder the implementation of an effective AML/CFT framework. Risk, materiality, and structural or

contextual factors may in some cases explain why a country is compliant or non-compliant, or why a country's level of effectiveness is higher or lower than might be expected, on the basis of the country's level of technical compliance. These factors may be an important part of the explanation why the country is performing well or poorly, and an important element of assessors' recommendations about how effectiveness can be improved (FATF, 2013).

Challenges in implementing AML/CTF by financial institutions includes weak internal control framework, poor corporate governance framework, lack of central database, reluctance of banks to share customer information, weak legislations and lack of awareness and training on AML/CTF issues, inability to authenticate and verify documents submitted by customers and genuines of officials documents from issuing authorities, unhealthy complication, lack of adequate and timely feedback on reported cases and suspicious transactions and lack of political will and commitment to fight against money laundering and financing of terrorism (GIABA ,2010).

2.1.8 Opportunities of AML/CTF Practices in Commercial Banks

Effectiveness of anti money laundering and combating the financing terrorism framework makes a country beneficial both domestically and internationally. These benefits include lower levels of crime and corruption, enhanced stability of financial institutions and markets, positive impact on economic development and reputation in the world community, enhanced risk management techniques for the country's financial institutions, and increased market integrity (Bartlett, 2002).

An AML/CFT compliance program not only helps an organization to comply with regulations but if done properly, it can aid in spotting opportunities or potential weakness along the business process that may or may not be AML/CFT related. Also, it allows a compliance officer to help guide and better advice internally on ML/FT risks as well as promoting culture that will benefit the organization in the long run (AML/CFT Compliance Program, n.d).

A strong AML/CFT institutional framework that includes a broad scope of predicate offenses for money laundering helps to fight crime and corruption in general. An effective AML regime is a deterrent to criminal activities in and of itself. Such a regime makes it more difficult for criminals to benefit from their acts. In this regard, confiscation and forfeiture of money

laundering proceeds are crucial to the success of any AML program. Forfeiture of money laundering proceeds eliminates those profits altogether, thereby reducing the incentive to commit criminal acts. Also Strong AML/CFT regimes provide a discouragement for the criminal involvement in the economy. This allows investments to be put into productive purposes that respond to consumer needs and help the productivity of the overall economy (Cataom et al., 2009)

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

Empirical review

2.1.9 Terrorism and consequences

There were 25,673 deaths in 2016; this figure was 29,376 in 2015. Deaths caused by terrorism decreased by 13 per cent from 2015 to 2016. The global economic impact of terrorism was US\$ 84 billion in 2016. This represents a seven per cent decline from the previous year and a 19 per cent decline from the peak in 2014.

The vast majority of terrorism occurs in the Middle East and North Africa (MENA), South Asia and sub-Saharan Africa regions. Collectively these regions account for 84 per cent of all attacks and 94 per cent of deaths. In contrast, Central America and the Caribbean accounted for the lowest levels of terrorism with only 0.05 per cent of attacks and deaths. In 2002, MENA had 1,651 deaths and 300 incidents from terrorism. Yet in 2016, these statistics increased to 13,512 deaths from 4,732 attacks.

In 2016, more countries experienced at least one attack and one death than at any other point since data was first collected in 1970. A total of 106 countries experienced a terrorist attack in 2016 with 77 experiencing at least one death.

In 2016, sub-Saharan Africa was the fourth worst performing region with 51 different terrorist organizations carrying out at least one attack in the region. There were a total of 1,450 attacks that resulted in 4,715 deaths. Since 2002, Sub-Saharan Africa has also seen the second largest deterioration in its GTI score in deteriorating by 60 per cent. Since 2002, 14 of the 44 countries in sub-Saharan Africa have improved their terrorism scores while nine saw no change and 21 deteriorated.

Since 2002, terrorist activity has increased markedly in terms of both the number of attacks and fatalities. The vast majority of countries in the region have experienced at least one terrorist attack with 37 of the 44 countries impacted. However, there is wide variation both in terms of the number of attacks and lethality of the terrorist attacks. Notwithstanding this, in 2016, there were 4,715 deaths as a result of 1,450 attacks, which is an increase since 2002, when the sub-Saharan Africa region witnessed 91 attacks that caused 309 deaths.

Nigeria and Somalia have experienced both the highest numbers of attacks and the highest death toll in the last 15 years primarily due to Boko Haram and al-Shabaab. Of the 35,559 people killed in terrorism attacks since 2002, 65 per cent of the fatalities and 70 per cent of the attacks occurred in these two countries.

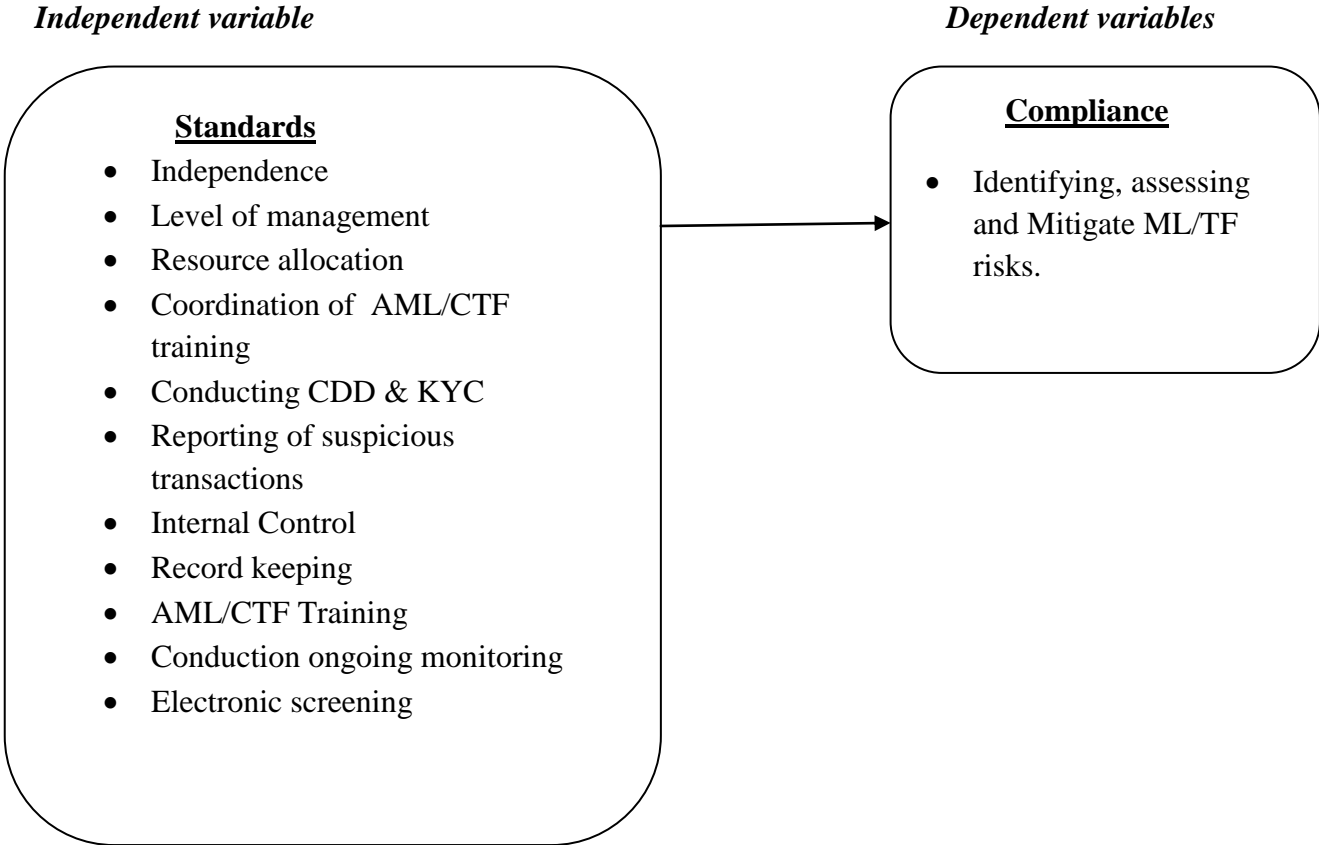
Over the last 15 years, attacks targeting private citizens and government accounted for 39 and 14 per cent of the total attacks respectively in sub-Saharan Africa. Other key targets include police, businesses, military and religious figures.

Analysis of 586 terrorist groups that operated between 1970 and 2007 found that 36 per cent of the groups remained active regardless of the counterterrorism approach adopted. Countries suffering from conflict experience the most costly economic impacts from terrorism. These countries are mainly situated in the Middle East and North Africa, sub-Saharan Africa and South Asia.

Terrorist activity is funded through various legal and illicit avenues and often benefits from corruption and support from the edges of the formal economy. Some examples of illegal sources of funding for terrorist groups include narcotics trafficking, human trafficking, extortion, illegal mining and banking transfers. The ease of transferring money to and within terrorist groups has

increased with increased access to the internet, online banking, phone money transfers and crypto currency (Institute for Economics & Peace, 2017)

2.1.10 Conceptual framework



Source: developed by researcher

CHAPTER THREE

3.1 METHODOLOGY

This part describes the methodologies that were used in this study. It includes research approach, research design, target population and sample, data source and types, data collection procedure ethical consideration, and data analysis techniques along with appropriate justification associated with each approach.

3.1.1 Research Approach

There are different research methodologies that are use depending on the type of research that are undertaken. The study problem of this research is more likely to be answered through a quantitative approach. This method enables us to understand the very nature of what we are actually looking at it. For the quantitative methodology, researchers use the scientific method, which starts with the specific theory and hypotheses, and where researchers quantitatively measure and analyze based on established research procedures (Swanson & Holton, 2005).

3.1.2 Research Design

According to Saunders et.al (2009), most common used research designs are exploratory, descriptive and explanatory which are classified based on the purpose of the research. Among these research designs, the research design that is applied for this study is descriptive research design. As the major purpose of descriptive research is description of the state of affairs as it exists at present (Kothari, 2004).The researcher will use descriptive type of design as the study will try to reveal the extent of compliance to anti money laundering and terrorist financing standards

3.1.3 Population of the study and Sampling Techniques

Population refers to any completed group of potential participants relevant to the purpose of the study (kothari, 2004).The Population for the study was employees of Dashen Bank in Risk Management and compliance Department, expecting that these Risk Management and Compliance Department Director, managers and officers would have adequate knowledge on ML/TF and subsequently have knowledge on the prevention measures adopted in the bank.

Risk Management and Compliance Department has 34 employees .Therefore the study was sought to gather information from the total population. That is, census method was employed.

3.1.4 Data Sources and Types

The study relied on both primary and secondary sources of data. Primary data was collected from respondents using a structured questionnaire. Secondary data was collected from different documents of the Bank like policy and procedures, guide lines and reports, directives, and other AML/CTF legal documents.

3.1.5 Data Collection Instruments

3.1.5.1 Questionnaire

Data was gathered from the respondents using five point Likert scale questionnaires designed by the researcher for self-administration. The questionnaires were designed based on the research questions to investigate and analyze the extent of compliance to Anti Money Laundering and countering terrorist financing standards. The respondents were asked to indicate their level of agreement and disagreement using a five-point Likert scale (1= strongly disagree 2= disagree, 3= neutral 4=agree and 5= strongly agree) about the Money laundering and Terrorist financing preventive measures

3.1.5.2 Document Review

In the document review, the researcher collected the necessary documents form AML/CTF compliance framework, AML/CTF policy and procedure and Risk management and compliance annual report of the Bank. The researcher also collected information from directives issued by financial intelligence center of Ethiopia (FIC) regarding AML/CTF compliance directive issued for financial institutions.

3.1.6 Data Collection Procedures

The researcher has approached the respondents by introducing herself briefly and explained the objective of the study. Finally, the researcher distributed questionnaires to the respondents and collected them when the respondents finish.

3.1.7 Ethical Consideration

In dealing with the research process the following ethical consideration were done

1. Informed consent:-The purpose and the importance of the study were explained for the participants of the study. Then, the respondents were informed that they have the right to participate or not in the filling the questionnaire.

2. Keeping confidentiality:-The participants were informed that any information they provide is to be kept confidentially so that they can answer and discuss freely.

3. The procedures of the study:-Procedures should not cause confusion and harm participants.

The questionnaire was prepared clearly and free from bias.

3.1.8 Data Analysis

After collecting and sorting the relevant data using data collection tools, quantitative responses were sorted, coded, and computed using the Statistical Package for Social Sciences (SPSS), version 20. Throughout the analyzing processes, percentages, mean, standard deviation and relevant statistical methods were employed. Moreover, tables and elaborations were used to present the findings.

3.1.9 Reliability

Internal consistency of items incorporated in the instrument was checked by using Cronbach's Alpha. Mean of each variable was computed and then the reliability was checked based on the means

Factors under study	Cronbach's alpha	No. of items
Implementation of AML/CTF compliance program	0.753	9
AML/CTF implementation challenges	0.879	16
AML/CTF implementation challenges	0.953	9
Variable Average	0.953	34

CHAPTER FOUR

4.1 FINDINGS, INTERPRETATION AND DISCUSSION OF RESULTS

4.1.1 Introduction

This chapter deals with data presentation, analysis and interpretation. The data are presented and analyzed based on data collected through structured questionnaires, and secondary data. Of the total questionnaires distributed to respondents (34), 91% of them (31) are collected.

Table.1.Questionnaire response rate

Description	Target respondents	successful	Success rate (%)
Questionnaire	34	31	91%

4.1.2 Respondent's Demographic Data

Table 2 shows the demographic information of respondents in terms of gender, age, educational level, work experience and current position of respondents.

Table 2.Demographic Data

Variables		frequency	percentage
Gender	Male	24	77%
	Female	7	23%
Age	20-30years	8	26%
	31-40 years	16	51%
	41-50 years	7	23%
Educational Level	First Degree	26	84%
	Masters	5	16%
Work experience	Less than 5 years	14	45%
	6-10 years	12	39%
	11-15 years	4	13%
	Greater than 15years	1	3%
Current position	Managerial	5	16%

	Non managerial	26	84%
--	----------------	----	-----

Source: Survey result, 2018

Gender frequency of the respondents shows that only 23% of the respondents are female while the majority (77%) is male. Regarding their age, 51% of respondents fall within the age category 31 up to 40 years. The remaining 26% (8) and (23%) of the respondents are between 20 up to 30 and 41 up to 50 years old respectively. There are no respondents aged more than 50 years old.

As the result shows here are no respondents below first degree. Most of the respondents (84%) of respondents are first degree holder while the rest 16% of the respondents, are second degree holders. This shows that Risk management and compliance department has man power with first and second degree to handle AML/CTF compliance duties.

In relation with experience, 45% of the respondents have less than 5 years of banking experience while 39% are between 6 and 10 years of experience. Only 13% and 3% of the respondents have experience of between 11 to 15 years and more than 15 years respectively. That is only 16% have experience more than 10 years. 84% of the respondents have experience of less than 10 years. Only 16% are at managerial position.

4.1.3 Implementation of AML/CTF compliance program

One of the researcher objectives is to assess the current practice of AML/CFT program implementation. Regarding the establishment, implementation of compliance program with the requirements of the proclamation and other related laws. Respondents are requested to give their feedbacks using a Five Point Scale from '5' as Strongly Agree, '4' as Agree, '3' as Neutral, '2' as Disagree and to '1' as Strongly Disagree in the questionnaire attached (Appendix).

The feedbacks are summarized by SPSS in descending order using Descriptive of Mean and standard deviation at Table 3 below.

Table3. Implementation of AML/CTF compliance program

	N	Mean (x)	Std. Deviation
Compliance Officer is designated at the senior management level	31	4.06	.629
Written policy framework is adopted to comply with AML/CFT obligations under any law	31	3.97	.605
Independent Compliance Officer is assigned	31	3.74	.855
Comprehensive AML/CFT compliance program is maintained	31	3.71	.461
The compliance officer has access to relevant information	31	3.68	1.045
Reporting line Procedure for compliance officer prepared and being conducted	31	3.32	1.137
Approved compliance policy and procedure by Board are available	31	3.13	.806
Adequate resources are allocated to the Office of Compliance	31	2.58	.765
Compliance Officer is designated to coordinating AML/CFT training of employee	31	2.52	.769
Aggregated mean		3.41	

Source: Survey result, 2018

As the table 3 shows the compliance officer is assigned at the senior management level is the first among the adoption of the compliance program ($x= 4.06$). They Bank also comply the standards, Adoption of written policy framework to comply with AML/CFT obligations under any law($x=3.97$) and appointment of Independent Compliance Officer (3.74) strongly. In addition respondents also agree in the Comprehensive AML/CFT compliance program maintenance ($x=3.71$) of the Bank. The access the compliance officer has to relevant information is the next complied standards($x=3.68$).

According to Basel (2005) Bank compliance officer shall be independent; each bank should have an executive or senior staff member with overall responsibility for co-coordinating the identification and management of the bank's compliance risk and for supervising the activities of other compliance function staff. Commercial banks have been legally required to adopt written policy framework stating their commitment to comply with Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) obligations under any law to actively prevent any transaction that facilitates criminal and to let the compliance

officer to have access in relevant importation (FIC, 2014). The finding shows the Bank fulfills the requirement mentioned above strongly since the mean fall between 3.71 to 3.77.

Preparing reporting line Procedure and conducting for compliance officer ($x= 3.32$) and the availability of approved compliance policy and procedure by Board ($x= 3.13$) are moderately considered in the AML/CTF compliance program establishment and implementation.

Even though the overall implementation of AML/CTF compliance program of the Bank is good as the aggregated mean (3.41) indicates in the above table, the Bank is weak in implementing the requirements allocation of adequate resources to the office of Compliance($x=2.58$) and designating Compliance Officer to coordinating AML/CFT training of employee while establishing the AML/CFT compliance program($x= 2.52$).

However allocation of sufficient resource to compliance office and appointing the compliance officer to coordinate AML/CTF training or employees are required by the by the standard and they are essential elements for financial institutions to prevent them from exposure of to undue reputational, operational, legal and concentration risks that may result from abuse of money launderers and terrorist financiers (FIC.2014).

4.1.4 ML/TF Preventive Measures

To address one of the research objectives, which is to assess the extent of ML/TF prevention measures implemented by Dashen Bank, respondents are requested to give their response using a Five Point Scale from '5' as Strongly Agree, '4' as Agree, '3' as Neutral, '2' as Disagree and to '1' as Strongly Disagree in the questionnaire attached (Appendix).

The responses are summarized by SPSS in descending order using Descriptive of Mean and standard deviation at Table 4 below.

Table 4. ML/TF preventive measures

	N	Mean (x)	Std. Deviation
Record Keeping Procedure is conducted	31	4.16	.583
Suspicious transaction 'red flags' check list maintained by and communicated to work units	31	4.03	.547
Cash transactions above the threshold are reported to FIC	31	3.94	.512
Internal controls and other procedures that will deter criminalist from using the banks facility for money laundering and terrorism financing are formulated and implemented	31	3.71	.588
Undertakes the full range of the Customer Due Diligence (CDD) measures (Customer identification procedures)	31	3.65	.661
Implementing " Know Your Customer requirement "and identify all their customers	31	3.48	.677
Ongoing employee awareness and training on AML/CTF is conducted	31	3.42	.765
Enabling working environment is created for employees to report any violations of the Bank's AML/CFT compliance	31	3.35	1.142
All suspicious transactions, are reported promptly	31	3.26	1.154
Periodic audit on Compliance Office is conducted.	31	3.26	.855
Appropriate risk assessment approach is conducted to ML/TF risks	31	3.23	.884
Assessing the Correspondent Bank's AML/CFT controls	31	2.45	.810
Updates AML/CFT frameworks	31	2.32	.945
All customers are classifier according to their AML/CTF risk level	31	1.97	.605
Appropriate risk management systems are concocted for monitoring Politically Exposed Person (PEP)	31	1.58	.502
Automatic electronic AML/CTF Screening is conducted	31	1.32	.475
Valid N (listwise)	31		
Aggregated mean		3.07	

Source: Survey result, 2018

As the SPSS results show in the table above, among the ML/TF measures that are highly adopted are record keeping (x=4.16) and maintaining of Suspicious transaction 'red flags' check list and communicated to work units (x= 4.03). The respondents also almost agreed that the Bank reports Cash transactions above the threshold to FIC(x=3.94), Formulate and implement internal controls and other procedures that will deter criminalist from using the banks facility for money

laundering and terrorism financing ($x=3.71$), Undertakes full range of the Customer Due Diligence measures (Customer identification procedures) ($x=, 3.65$), Implementing " Know Your Customer requirement "and identify all their customers(3.48), Conducting ongoing employee awareness and training on AML/CTF(3.42) , Creating working environment for employees to report any violations of the Bank's AML/CFT compliance(3.35), reporting all suspicious transactions promptly(3.26), conducting periodic audit on Compliance Office(3.26), conducting appropriate risk assessment approach to ML/TF risks (3.23) are moderately conducted ML/TF preventives .The mean result of the above ML/TF preventive measures (standards) fall under the range of **3.23 to 3.94** as shown in table 4.

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

The over practice of ML/TF Preventive Measures of the Bank is good since the aggregated mean (3.07) which is above average. However, the aggregated mean indicates that mostly the respondents answer lean towards neutral which means that the Bank still have gaps in complying with the standards.

The Bank under this study almost weak in implementing or complying to the ML/TF preventive measures or standards of Assessing the Correspondent Bank's AML/CFT controls ($x=2.45$), Updating AML/CFT frameworks ($x= 2.32$), Classifying customers according to their AML/CTF risk level($x=1.97$), conducting appropriate risk management systems for monitoring Politically Exposed Person (PEP) ($x=1.58$) and conducting automatic electronic AML/CTF Screening ($x=1.32$) .The mean score fall under the range of 1.0 to2.45 which is below average.

FATF requires the implementation of AML measures since the duties of banks are relatively more transnational than other the remaining financial service. This unique nature attracts money launderers and terrorist financiers (FATF, 2013).Not only do money laundering and terrorist

financing negatively affect the integrity and stability of the financial sector, but they also undermine national security and economic development goals (BoG & FIC, 2011).

According to John and Gary (2001), a comprehensive and effective AML/CFT framework, together with timely implementation, reduce the profitable aspects of criminal activity and, in fact, discourage criminals and terrorists from utilizing a the financial institutions, on other hand the country .To be reluctant in implementing the ML/TF retentive standards may impose negative impact to the Bank by opening a door for Money laundering and terrorist financing through the use of the Bank. The illicit activities can discourage foreign investment and distort international capital flows. They may also result in welfare losses, draining resources from more productive economic activates and even have destabilizing effects on the other countries (IMF, 2017).

4.1.5 AML/CTF implementation challenges

The other objective of the study is to look at the factors that hamper the practice and implementation of AML/CTF standards. Respondents were requested to give their response using a five Point Scale from '5' as Strongly Agree, '4' as Agree, '3' as Neutral,'2' as Disagree and to '1' as Strongly Disagree in the questionnaire attached (Appendix).

The responses are summarized by PSSP in descending order using Descriptive of Mean and standard deviation at Table 5 bellow.

Table5. AML/CTF implementation challenges

	N	Mean	Std. Deviation
practicing AML/CTF in among cashed-society is difficult	31	4.19	.703
AML/CTF awareness in the society is lower	31	4.06	.814
Implementing compliance practice of Political exposed person (PEP's) are difficult	31	4.03	.912
Difficult to authenticate and verify documents submitted by customers and geniuses of officials documents from issuing authorities	31	3.77	.990
Unavailability of Sufficient technology Infrastructure (IT)	31	3.77	.920
High costs are required to implement AML/CTF	31	3.65	1.050
Insufficient allocation of resource for compliance department	31	2.58	.886
Less support from top level management	31	2.26	.575

Implementing customer due diligence (CDD) & Know Your Customer (KYC) is not easy	31	2.10	1.136
Valid N (listwise)	31		

Source: Survey result, 2018

The respondents rate the listed factors which hinder the implementation of AML/CTF as practicing AML/CTF in among cashed-society is difficult (x= 4.19), AML/CTF awareness in the society is lower (x= 4.06), and Implementing compliance practice of Political exposed person (PEP's) are difficult (x=4.03) are the upper most challenges. The range falls between a mean of **4.0 and 5.0**.

The literature also supports the challenge of the Bank to implement AML/CTF standards, that Liat et al. (2015) states with predominantly informal and cash-base economies; those states like Ethiopia are particularly vulnerable to money laundering and terrorism financing activities.

The next three factors that challenge the implementation of the AML/CTF standard fall between a mean range of **3.5 and 3.8**. Those are, Difficulty to authenticate and verify documents submitted by customers and geniuses of officials documents from issuing authorities (x= 3.77), Unavailability of Sufficient technology Infrastructure (IT) (x=3.77) and High costs required to implement AML/CTF (x= 3.65).

Allocation of insufficient resource for compliance, support from top level management and Implementing customer due diligence (CDD) & Know Your Customer (KYC) are the least to the Bank when compared to the others with mean score of 2.58, 2.26 and 2.10, and respectively .

According to GIABA (2010) Challenges in implementing AML/CTF by financial institutions includes weak internal control framework, poor corporate governance framework, lack of central database, reluctance of banks to share customer information, weak legislations and lack of awareness and training on AML/CTF issues, inability to authenticate and verify documents submitted by customers and geniuses of officials documents from issuing authorities, unhealthy complication, lack of adequate and timely feedback on reported cases and suspicious transactions and lack of political will and commitment to fight against money laundering and financing of terrorism.

4.1.6 Findings of the open-ended Questions

This part comprises the respondent's answer for the open-ended questions. From 31 respondents only 13 of the respondents replied for the question about the existence of a problem in the practicing AML/CTF Standards in the Bank as problem exists and they describe as below. The respondents in general expressed:

- One of the difficulties in implementing ML/TF preventive standards is, not having a national ID card in the country and hence this makes the difficult the implementation of CDD and KYC requirements as need
- Even though the standard requires taking appropriate risk management systems for monitoring Politically Exposed Person (PEP), FIC or the concerned governmental units didn't provide list of Politically Exposed Persons. And it makes it difficult to conduct the requirement. This was the next challenge faced by the bank following the difficulty of practicing AML/CTF in among cashed-society and, lower awareness in the society about AML L/CTF according to the response of respondents in table 5.

4.1.7 Document review

While reviewing The Compliance framework of the Bank, it was prepared based on the repealed Directives (No. SBB/46/2010) and were not amended following the issuance of the new directives (FIC No. 01/2014) to march 2017. This supports the finding updating AML/CTF framework was less considered issue to conduct.

Suspicious transaction 'red flags' check list is maintained and communicated to work units in Bank's AML/CTF procedure manual and shows this standard to ML/TF preventive measures was implemented as also it was found in the respondents response .

Annual RMCD report (2016/2017) stated there is a lack in to monitoring and detecting suspicious transactions during client on boarding and on transaction basis throughout the bank's business units, since there are no alert automated systems. There is no also automated alert system on unusual and complex transactions as well as high-risk region. The result was also showed in table 4 as Automatic electronic AML/CTF Screening is conducted the least ML/TF measure implemented in the bank from the listed Preventive measures (standards).

CHAPTER FIVE

5.1 SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

5.1.1 Summary of finding

The majorities of the respondents are male and from age perspective majority are within 31 up 40 age interval. Most of the respondents (84%) are first degree holders while the rest are second degree holders. Regarding experience, the majority (45%) has less than 5 years experience and 39% has between 6-10 years of experience. Only 16% are at managerial position.

The extent of compliance to anti money laundering and countering terrorist financing AML/CTF Standards was assessed through the establishment and implementation of AML/CFT compliance program , the implementation of standard ML/TF preventive measures, and the factors that affects the practice AML/CFT of are complies implementation with AML/CFT regulations and Identify the factors that affect practice of regime.

The result shows that the establishment of and implementation of program of compliance is good (above average).The Bank appoint independent compliance officer and which is also at senior management level. In addition written policy framework adopted to comply with AML/CFT obligations under any law. The Bank appoints the compliance officer in a position to have access to relevant information and reporting line procedure for compliance officer is maintained. Even though the overall implementation of AML/CTF compliance program of the Bank is good, result also shows less emphasis is given to allocation of adequate resource to the office of compliance and designating a Compliance Officer to coordinating AML/CFT training of employee.

The result also shows that the overall implementation of standard ML/TF preventive measures in the Bank is above average. Most respondents agree in the implementation on recorded keeping procedures and maintaining suspicious transaction 'red flags' check list. The respondents also almost agreed that the Bank reports Cash transactions above the threshold to FIC, Formulate and implement internal controls and other procedures that will deter criminalist from using the banks facility for money laundering and terrorism financing , undertakes full range of the Customer Due Diligence measures (Customer identification procedures) , Implementing " Know Your

Customer requirement "and identifying all their customers, conducting ongoing employee awareness and training on AML/CTF, Creating working environment for employees to report any violations of the Bank's AML/CFT compliance, reports all suspicious transactions promptly and conduct periodic audit on Compliance office. Most respondents are neutral about the Bank carry out appropriate risk assessment approach to ML/TF risks.

Thought the overall mean shows above average, most respondents disagree the implementation of Assessing the Correspondent Bank's AML/CFT controls, Updates AML/CFT frameworks, Classifying customers according to their AML/CTF risk level, conducting appropriate risk management systems for monitoring Politically Exposed Person (PEP) and conducting automatic electronic AML/CTF Screening.

The research result shows factors that challenge the Bank while practicing AML/CTF standards By the Bank. The difficulty of practicing AML/CTF among cashed-based society , the less awareness of the society in AML/CTF and the difficulty of implementing compliance practice of Political exposed person (PEP's) are the upper most agreed by most respondents.

Difficulty to authenticate and verify documents submitted by customers and geniuses of officials documents from issuing authorities, Unavailability of Sufficient technology Infrastructure (IT),High costs required to implement AML/CTF are also agreed by most respondents.

The result of the open-ended questions shows, not having a national ID card in the country, impose difficulties in implementing ML/TF preventive standers like implementation of CDD and KYC requirements .And also, since there is no list of Politically Expose Persons provided by FIC or the concerned governmental units in the country, it makes difficult to conduct the required standard in taking appropriate risk management systems for monitoring Politically Exposed Person (PEP).

5.1.2 Conclusion

Even though the overall establishment and implementation of compliance program of the Bank is good, less emphasis is given to allocation of adequate resource to the office of compliance and Compliance Office is not appointed to coordinating AML/CFT training of employee and not complied. However the Bank will be beneficial if it allocates sufficient resource for the

proper functioning of AML/CFT appoint the compliance officer in a position to coordinate AML/CFT training of employee to make employees fully aware of their obligations and also to equip them with relevant skills required for the effective discharge of their AML/CFT tasks and to comply with the requirements.

The overall result indicates that the implementation of ML/TF preventive standards are above average but still has still gaps. Comprehensive and effective AML/CFT framework, together with timely implementation reduce the profitable aspects of criminal activity and, in fact, discourage criminals and terrorists from utilizing a the Bank. The Bank is weak in updating AMC/CTF framework timely. This may lead to a gap to regulatory requirements and may impose reputational, legal and computational risk. The result affects (Especially reputational risk) the Bank in losing trusts of customers. Comprehensive and effective AML/CFT framework, together with timely implementation reduce the profitable aspects of criminal activity and, in fact, discourage criminals and terrorists from utilizing a the Bank.

The Bank is also weak in using automatic electronic AML/CTF screening, and hence lacks in monitoring and detecting suspicious transactions throughout the bank's business units. Unusual and complex transactions as well as high-risk region may not be monitored effectively. This may expose the funding of terrorism and money laundering through the abuse of the Bank. Weak implementation of AML/CFT standards may also discourage foreign investment since correspondent Banks assess AML/CFT control and ascertain the adequacy and effectiveness before they enter to agreement.

The difficulty of practicing AML/CTF among cashed-based society , the less awareness of the society in AML/CTF and the difficulty of implementing compliance practice of Political exposed person (PEP's) are the most challenges faced y the Bank while practicing AML /CTF standards

The result also shows, not having a national ID card in the country, impose difficulties in implementing ML/TF preventive standers like implementation of CDD and KYC requirements .And also, since there is no list of Politically Expose Persons provided by FIC or the concerned governmental units in the country, it makes difficult to conduct the required standard in taking appropriate risk management systems for monitoring Politically Exposed Person (PEP)

Finally, complying with the standards will strengthen internal control and risk management system of the Bank and help to prevent the bank from exposure to reputational, legal operational and concentration risks that may result from abuse of money launderers and terrorist financiers.

5.1.3 Recommendations

The study makes the following recommendation to address the key findings.

- ✓ Even though Dashen Bank made its efforts to comply with standards, the study also found that there are ML/TF preventive measures yet to be enhanced. There is no automatic electronic screening practicing in the bank. Lack of Automated alert automated systems to monitor and detect suspicious transactions and automated alert systems on unusual and complex transactions exposes the Bank to very high ML/TF risk. Hence, the study recommends that bank to use automated screening and automate alert system to mitigate the entailed risks and to comply with the standard.
- ✓ The finding of the research shows updating AML/CFT framework was done or conducted below average and this was also supported in document review .This may expose the Bank to AML/CTF risks since employees will not be updated with new regulation and lows . Hence the study recommends the Bank to revise its it's AML/CTF framework from time to time on timely base in order to determine their adequacy and identify potential risks not discovered before. In addition to aware its employees with new regulations issued and equip them to mitigate the related risks .Beside to comply with regulation.
- ✓ In order to take the necessary and the proper risk management the bank should classify its customers according to their AML/CTF risk level.
- ✓ Even though there is no national ID in the country, other mechanisms should used exhaustively to conduct KYC and CDD requirement in order prevent funding of terrorism and money laundering through the abuse of the Bank.
- ✓ The Bank shall designate Compliance Officer to coordinating AML/CFT training of employee .And to ensure ongoing employee awareness and training on to equip employees to discharge their obligations related to AML/CTF

- ✓ Government and Policy makers shall work in awareness creation regarding issues of AML/CTF mitigate the related risks.
- ✓ FIC or concerned government body should provide database (list) of Politically Exposed Person and support institutions to take the appropriate risk management system for monitoring Politically Exposed Person (PEP) and to comply with the requirement and mitigate the related risks.
- ✓ Finally, as this study focuses on Dashen Bank only, further research is needed on the other banks and financial and nonfinancial sectors which are vulnerable to money laundering and terrorist financing.

References

- About Business Crime Solutions** (2017), "Money Laundering: a three-stage process" Retrieved from <https://www.moneylaunderind.ca/public/law/3-stsges-ML-php>
- Bartlett, Brent. (2002) '*Negative Effects of Money Laundering on Economic Development*', An Economic Research Report prepared for the Asian Development Bank.
- Bedi, Rohan (2006) '*Overview of Anti-Money Laundering*', Saw Center for Financial Studies, NUS Business School National University of Singapore
- Basel Committee on Banking Supervision (2001) '*Customer Due Diligence for Banks*'. BCBS, Basel. <http://www.bis.org/bcbs>
- Basel Committee on Banking Supervision (2005) "Compliance and the compliance function in banks". BCBS, Basel. <http://www.bis.org/bcbs>
- Basel Committee on Banking Supervision (2014) '*Sound management of risks related to money laundering and financing of terrorism*'. BCBS, Basel. <http://www.bis.org/bcbs>
- Bartlett, Brent (2002) "*Negative Effects of Money Laundering on Economic Development*", An Economic Research Report prepared for the Asian Development Bank. Accessed on May 11, 2014
- BoG & FIC (2011) '*Anti-Money laundering/combating the financing of terrorism (AML/CFT) Guide line for banks and non- bank financial institutions in Ghana*
- CGCC (2013) "*The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia*". Second Assessment Report, 803 North Main Street Goshen, IN 46528, USA.
- Chaikin, David (2014) "*International Anti-Money Laundering Laws Improving External Accountability of Political Lead-Improving External Accountability of political Leaders*," U4 BRIEF, University of Sydney, Australia, accessed 1 June, 2014
- Chutia, R. (2013) "*Anti-Money Laundering in India: Issues and Perspectives*". Volume: 2, Issue 2 Feb2013 • ISSN No 2277 - 8179, accessed on 24 March 2014
- Cooper, D. R., & Schindler, P. S. (2006). *Business Research Methods* (9th edition). USA: McGraw-Hill
- Dashen Bank S.C Annual Report for the year end 2017.
- Doyle, Todd (2002) "*Cleaning Anti-Money Laundering Strategies: Current FATF Tactics Needlessly Violates Int'l Law*", Houston Journal of International Law, Vol. 24
- Elahi, Malek & Dehdashti, Massoud (2010) "A Typology of Management Studies Based on Three Classifications of Researches according To Purpose, Method, and Application

Ethiopian FIC (2014) “*Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives*,” no. 01/201

ESAAMLG (2009) "An Assessment of the Links between Corruption and the Implementation of Anti-Money Laundering Strategies and Measures in the ESAAMLG Region". Arusia, 2009. accessed on 3 May 2018

FATF (2001) "Review to Identify Non-Cooperative Countries or Territories". Paris: FATF. www.fatf-gafi.org/media/ accessed on 1 June 2013.

FATF (2012-2018) ” *International standards on Combating Money Laundering and the Financing of Terrorism & Proliferation*”, FATF, Paris, France, www.fatf-gafi.org/recommendations.html

FATF (2013) "Methodology for assessing technical compliance with the FATF Recommendations and the Effectiveness of AML /CFT Systems", FATF, Paris, www.fatf-gafi.org/ accessed on 12 Feb.2014

FATF (2013-2018) ”*Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems*”, updated February 2018, FATF, Paris, France, www.fatf-gafi.org/publications/fatfrecommendations/documents/fatfissuesnewmechanismtostrengthenmoneylaunderingandterroristfinancingcompliance.html

FATF (2013) "National Money Laundering/Terrorist Financing Risk Assessment". FATF, Paris. www.fatf-gafi.org/ accessed on March 3, 2014.

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

GIABA (2010),”Challenges in AML/CTF implementation by Financial Institutions” Retrieved from <https://www.giaba.org>

Ian Carrington & Heba Shams (2006) 'Elements of an Effective AML/CFT Framework: Legal, Regulatory, and Best Seminar on Current Developments in Monetary and Financial Law Washington, D.C.

Institute for Economics & Peace (2017),” Global Terrorism index”.

Internal Audit Report of Dahan Bank on RMCD 2017.

IMF (2011). "Compliance with the AML/CFT International Standard: Lessons from a Cross-Country Analysis". IMF Working Paper, Legal. Ross Leckow for printing and distribution

IMF FACTSHEET (2017) ”*The IMF and the Fight Against Money Laundering and Financing of Terrorism* “IMF Working Paper, Legal. Ross Leckow for printing and distribution

John M Senior Policy Adviser & Gary N. Program Analyst (2001) ”*Consequences Of Money Laundering and Financial Crime*”, Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State,

- Kothari, C.R. (2004), *Research Methodology, Methods and Techniques* (2nd ed.), New Age International, Ltd., Publishers
- Kumar, Ranjit (2005)"*Research Methodology- A Step-by-Step Guide for Beginners*".(2nd.ed.), Singapore,Pearson Education ,accessed on 24 Nov.2013.
- Liat Shetret, Tracey Durner, Danielle Cotter and Patrick Tobin, (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, USA
- Modelyn J. Daley, (2000), Effectiveness of United States and International Efforts to Combat International Money Laundering, St. Louis Warsaw Transatlantic Law Journal
- Nigel Morris-cotteril.(2015) ,"money laundering risk management and compliance" .www counter money laundering. Com
- NBE Banking Supervision Directorate (2015), Draft Examination Report on Dashen Bank S.C. as at Dec. 31, 2014
- Proclamation No. 657/2009: *Prevention and Suppression of Money Laundering and the Financing of Terrorism*, Federal Negarit Gazeta, no.1 (16 December 2009), pp. 5089–5104.
- Proclamation No. 780/2013 *Prevention and Suppression of Money Laundering & Financing of Terrorism Proclamation*, Federal Negarit Gazeta, no.1
- Quillen, Jeffrey (1991) "The International Attack on Money Laundering: European Initiatives". Duke Journal of Comp and Int'l. Law, Vol.213
- Saunders, M., Lewis, P. and Thornhill, A. (2009), *Research methods for business students* (5th ed.), Pearson Education Limited.
- Steel, Billy and Others (1998/2005), "*Money-Laundering*", Crime and Miss Conduct Commission, Queensland, Available at [Http://www.coumtermoneylaundering.com](http://www.coumtermoneylaundering.com)
- Swanson, R. A., & Holton, E. F. III. (Eds.) (2005). *Research in organizations: Foundations and methods of inquiry*. San Francisco
- Teachr, Law.(Nov 2013)"The early History of Money Laundering". Retrieved from <https://www.lawteacher.net?vvrf=1>
- Tu'emay Aregawi Desta (2013) "*The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia*", Center on Global Counterterrorism Cooperation, USA
- Vaithilingam, S.and Nair, M. (2007)"Factors Affecting Money Laundering: Lesson for Developing Countries." *Journal of Money Laundering Control*, Vol. 1 0(3)
- Vijay Kumar Singh (2009) "*Controlling Money Laundering in India-Prospects and Challenges*"

Appendix

Addis Ababa University

School of Commerce

Questionnaire

This study is being carried out on the title “**Assessing the extent of compliance to Anti Money Laundering and Countering terrorist Financing (AML/CTF) standards in Ethiopia’s commercial Banks: the case of Dashen Bank**”.

Confidentiality

Any information you present will be kept absolutely confidential and will be used only for academic purpose. Your cooperation and on time response will be highly appreciated

Informed consent

Taking part in this study is completely your choice. If you choose not to participate in the study or if you decide to stop participating in the study you will continue to be treated normally. You can stop participating in this study at any time, even if you have already given your consent and if for any reason you would wish to come back into the study after withdrawal, we will be ready to accept you to continue with the study. Refusal to participate or withdrawal from the study will not involve penalty or loss of any benefits to which you are otherwise entitled.

General instruction

There is no need of writing your name anywhere on the questionnaire. Where answer options are available please tick (✓) in the appropriate box for part I, II, III and IV. For part V write your answer freely on the blank space.

Thank You in advance for your cooperation and willingness!!

Part I: Demographic information

1. Gender

Male Female

2. Age

20-30 31-40 41-50 greater than 50

3. Educational qualification

Diploma First Degree Masters PhD Others

4. How long have been employee of the this organization

Less than 5 years 5-10years 11-15years 15> years

5. Your current position

Managerial none managerial

Part II. Implementation of AML/CTF compliance program

Please tick in the appropriate box to indicate the extent to which you agree or disagree with each statement. With **1 = strongly disagree (SD)**, **2 = disagree (D)**, **3 = neutral**, **4 =agree(A)** , **5 = strongly agree(SA)**.

	Implementation of AML/CTF compliance program	SD	D	N	A	SA
1	The bank has adopted written policy framework stating its commitment to comply with AML/CFT obligations under any law to actively prevent any transaction that facilitates criminal activities.					
2	A comprehensive AML/CFT compliance program is maintained					
3	Adequate resources are allocated including staff and financial resources for proper functioning of AML/CFT compliance.					
4	Compliance Officer is designate d at the senior management level to implement the Bank’s AML/CFT compliance program					

	Implementation of AML/CTF compliance program	SD	D	N	A	SA
5	Designated Compliance Officer is independence to implement the bank's AML/CTF compliance program					
6	The compliance officer have access to relevant information concerning customers, representatives of the customers, business relationships and transactions and the details of such transactions which the financial institution enters into, or considers entering into, with or for a customer or other party					
7	Compliance Officer is designated coordinating the training of employee in AML/CFT awareness, detection methods and reporting requirements.					
8	The Compliance Manuals, policies, controls, and procedures formulated and approved by the Board.					
9	Procedure for compliance officer reporting line, including the one who should conduct, what should be focused whom the findings will be reported are prepared and being conducted					

Part. III ML/TF Preventive Measures

	ML/TF Preventive Measures	SD	D	N	A	SA
10	undertakes the full range of the Customer Due Diligence (CDD) measures .(Customer identification procedures)					
11	Implement „Know Your Customer“ requirement and identify all their customers					
12	There are appropriate risk management systems to determine whether a potential customer or existing customers or the beneficial-owner is a Politically Exposed Person (PEP).					
13	Suspicious transaction ‘red flags’ check list t maintained by and communicated to work units					
14	Cash transactions in any currency above the threshold are reported to the Financial Intelligence Unit					
15	All suspicious transactions, including attempted transactions, are reported regardless of the amount of the transaction promptly					
16	The bank has an automatic screening tool that identifies PEPs, Suspicious transactions, erroneous activities, etc					
17	The bank formulate and implement , internal controls and other procedures that will deter criminals from using its facilities for money laundering and terrorism financing					

	ML/TF Preventive Measures	SD	D	N	A	SA
18	Periodic audit to verify the effectiveness of the compliance program is formulated and being conducted					
19	takes appropriate steps to identify, assess, and understand their money laundering and terrorist financing risks					
20	The bank comprehensively classified all customers AML/CTF risk level					
21	Establishes an ongoing employee awareness and training program to fully aware and equip them to effectively discharge their AML & CFT tasks.					
22	Reviews their AML/CFT frameworks from time to time to determine adequacy and identifying other areas of potential risks					
23	The bank creates an enabling working environment that can make it possible for employees to report any violations of the Bank's AML/CFT compliance program to the Compliance Officer and the Center					
24	assess the Correspondent bank's anti-money laundering and combating terrorist financing controls, and ascertain that they are adequate and effective before interring into any business relationship					
25	Procedures to meet record keeping obligations, including the type of document, who has responsibility for the maintenance of files, confidentially, the type of information collected and the length of time each record is required to be kept are formulated and being conducted					

Part. IV AML/CTF implementation/practice challenges

	AML/CTF implementation challenges	SD	D	N	A	SA
26	Less support to compliance from top level management					
27	Unavailability of Sufficient technology Infrastructure (IT)					
28	Insufficient allocation of resource(Budget) for compliance department					
29	AML/CTF awareness in the society is lower					
30	High costs are required to implement AML/CTF					
31	Practice AML/CTF among cashed-society is difficult					
32	Implementing customer due diligence (CDD) & Know Your Customer (KYC) in bank is not easy					

	AML/CTF implementation challenges	SD	D	N	A	SA
33	Implementing compliance practice of Political exposed person (PEP's), in a bank are difficult					
34	difficult to authenticate and verify documents submitted by customers and geniuses of officials documents from issuing authorities					

PART. V Open-ended Questions

1. Is there any problem in the practicing AML/CTF Standards? Yes or No

2. If the answer for the above question is yes, what are they?

3. What do you suggest for the Bank for future in practicing AML/CTF standards

4. If you have any comment.

