ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

ANTI MONEY LAUNDERING AND COMBATING TERRORIST FINANCING (AML/CTF) COMPLIANCE PRACTICES IN ETHIOPIA'S COMMERCIAL BANKS: OPPORTUNITIES AND CHALLENGES

BY AYELE YITAYEW

JUNE 2014
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APPROVED BY BOARD OF EXAM INERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Elias Nour (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor Signature & Date

Table of Contents

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Acronyms

AML/CTF:	Anti Money Laundering/Combating Terrorist Financing
CBE:	Commercial Bank of Ethiopia Customer Due Diligence
CDD:	Center on Global Counterterrorism Co-operation
CGCC:	Customer Identification Procedure
CIP:	Cash Transaction Reports
CTRs:	East and South Africa Anti Money Laundering Group
ESAAMLG:	Financial Action Task Force Financial Intelligence
FATF: FIC:	Center (Ethiopia)
FIUs:	Financial Intelligence Units FATF Style-
FSRBs:	Regional Bodies International Co-
ICRG:	operation Review Group
IGAD:	Inter Governmental Authority on Development
IMF:	International Monetary Fund Know your
KYC:	Customer
ML/TF:	Money Laundering/ Terrorist Financing
ML:	Anti Money Laundering Law
ML:	Money Laundering
NBE:	National Bank of Ethiopia
NCCT's:	Non Cooperative Countries and Territories
OD C (UN)	Office of Drug and Crime
PEPs:	Politically Exposed Persons
STRs: UN:	Suspicious Transaction Reports
UNDCP:	United Nations
UNTOC:	United Nations Drug Control Program
WB:	United Nations Transnational Organized Crime Convention
	World Bank

Abstract

The main objective of this study is to assess regulatory regime of Anti Money Laundering and Combating Terrorist Financing (AML/CTF) and to measure ML/CTF preventive standards that are being practiced in commercial banks of Ethiopia. The study assesses the AML/CTF regime of the regulatory scope and identifies the reasons Ethiopia has been categorized Public Statement by Financial Action Task Force (FATF). It also evaluates ML/TF preventives and to what extent they are practiced at commercial banks of Ethiopia. Meanwhile, challenges that banks face while practicing AML/CTF and opportunities are assessed.

AML/CTF is a global issue. All regimes in the world are required to cooperate with each other to apply FATF's Recommendations (40+9) which are endorsed by UN and criminalize ML/TF. Despite delay, Ethiopia has started practicing AML/CTF in its banks. Many progresses are made in the country within these few years. Based on 36 respondents among the commercial banks' compliance managers, this study found that commercial banks in Ethiopia have been discharging their responsibilities by implementing and practicing AML/CTF at a moderate level. However, ML/TF preventive measures revealed that commercial banks do not have automatic electronic customer/transaction screening. Compliance oficers/managers are not independent and some not assigned at managerial level thereby violating FATF's standards and Art. 11(3) of FIC's Proc. 780/2013. Further, the finding confirmed that Political Exposed Persons Customer Due Diligence (PEPs CDD) procedures and banking infrastructure technology are serious challenges for banks. AML/CTF opportunity measures confirmed that Ethiopia's commercial banks do understand the benefits of practicing AML/CTF regime. The mean score in this regard is very high and above average.

Despite all these eforts, FATF stated its reasons for the Public Statement [1] as "Ethiopia has not made suficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies ". Hence, all concerned organs are required to examine the case and seek solutions to FATF's specific requests as soon as possible. Non-compliance with FATF Recommendations entails risk for an economy's financial systems, reputation, and its interests in dealing with other economies. FATF-ICRG is also expected to understand and be considerate for the problems that developing countries such as Ethiopia are facing.

Key Words: *Money Laundering, Terrorist Financing, Preventive Measures, Commercial Banks, Ethiopia*

[1] FATF Public Statement: *Paris, 14 February 2014* - The Financial Action Task Force (FATF)... In order to protect the international financial system from money laundering and financing of terrorism (ML/FT) risks and to encourage greater compliance with the AML/CFT standards, the FATF identified jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system.

http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions/documents/public-statement-feb-2014.html#Ethiopia

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The international community has made the combating of money laundering (ML) and the financing of terrorism a priority (FT). The goals of this effort include protecting the integrity and stability of the international financial system, cutting off the resources available to terrorists and money launderers and making it more difficult for those engaged in crimes to profit from their criminal activities (IMF, 2011).

Unless money laundering and terrorist financing are controlled and eliminated, the future can boost corruption, worsen poverty, render 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).

As money laundering and terrorist financing brought about devastating impact worldwide, UN (Res. No. 1267 & 1373) and Financial Action Task Force (FATF) have come up with legally binding Recommendations (40+9) by each jurisdiction to be implemented and practiced starting from 2001. FATF requires measures to be taken by the international communities such as the AML/CTF legislation, setting up Financial Intelligence Unit (FIU) and others. These communities focus on information disclosure and transparency in financial institutions. They establish international co-operation and information sharing systems to combat, detect, investigate and prosecute suspicious money laundering and terrorist financing transactions (FATF, 2006).

The duties of banks are relatively more transnational than other the remaining financial services. This unique nature attracts money launderers and terrorist financers. Hence, FATF requires the implementation of AML/CTF measures. 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).

Others argue that even if AML/CTF laws and regulations are made along with the formation of regulatory organs and the existence of government commitments; what are required by FATF (Financial Action Task Force) may not be promptly solved due to different factors. The factors can be cultural, level of societal development, financial, technological, geographical, legal, political and institutional that exist in the country (Yepes, 2011).

According to Beekarry (2011), ML/TF crime is committed, not only in the developing countries, but also across the boundaries of multiple jurisdictions in which criminals' proceeds, and documentary evidence can easily move from one jurisdiction to another because of banks' services. By using the development of technology which facilitates the method of transferring illicit funds across-borders, criminals utilize banks to make money laundering easier to accomplish and harder to detect.

Given their geographic situations, economical levels, trade gateways, political situations, boarder relationships, culture; money laundering and terrorist financing pose significant challenges to Eastern Africa's financial integrity (CGCC, 2013).

Currently, almost all countries in the world, including Ethiopia, have installed AML/CTF regimes and have been practicing prevention measures in banks. To what extent these preventive measures are put in place in Ethiopia and the scope of sources of obligatory legal and other aspects of AML/CTF will be assessed in this study.

1.2 Statement of the Problem

Banking is the most important part of the financial system. It is key to facilitating domestic and international payments, it serves as the intermediary for depositors and borrowers, and it provides other financially related products and services. In this regard, a country’s AML/CFT regime needs to start with its banks (Chatain & others, 2009).

However, most of Ethiopians, including the bankers, do not understand the benefits of AML/CTF regime. They feel that AML/CTF is initiated only by the national government. They do not have clear vision whether AML/CTF benefits to the country as well as the world at large. This information is available from bankers while trainings are conducted and from the public as customers tell to banks' employees when they are asked to deposit and withdraw their money as per the requirement. Customers usually use structuring their money to be free from being reported when they deposit and withdraw (FIC,2013).

In November 2009, the Ethiopian Parliament enacted Prevention and Suppression of Money Laundering and Financing of Terrorism (Proclamation No. 657/2009); and in March 2010, the National Bank of Ethiopia issued a Directive mandating Customer Due Diligence (CDD No. 046/20 10) by banks.

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

Despite these, the FATF-ICRG (International Co-operation Review Group) has publicized Ethiopia eleven times, starting on 18 February 2010 to 14 February 2014 (www.fatf-gafi.org) among the countries that have strategic deficiencies, inadequate legal and institutional AML/CFT arrangements by qualifying 'Public Statement (Black List)'. These have negative impacts on the country's economy. As a result, organizations and international business entities, or persons who use banks face repetitive screening (FATF, 2012).

The study is conducted to examine and measure AML/CTF system implementations and the practices of Ethiopia's commercial banks, in this regard. AML/CTF system implementation opportunities and challenges/factors are indicated. The study also assesses other sources of the problem to the 'Public Statement' since it has negative impact to the image and economic performance of the country.

1.3 Research Questions

Based on the problem stated in this study, research questions are developed as follows.

The main research question is "What are the dimensions affecting the practices of AML/CTF regime in Ethiopia's commercial banks?"

To gain a comprehensive understanding of the phenomenon under investigation and to provide clear justifications, the following five specific research questions need to be addressed.

a) What does AML/CTF regime regulatory scope cover?
b) Why does FATF classify Ethiopia in the category of *Public Statement (Black List)?*
c) To what extent are ML/TF regime preventive measures practiced in the Ethiopia's commercial banks?
d) What are the factors to AML/CTF regime practices in Ethiopia's commercial banks?
e) What are the opportunities of AML/CTF regime practices?

1.4 Objectives of the Study

The general objective of the study is to assess AML/CTF legal scopes and to measure ML/CTF preventive standards that are being practiced in commercial banks of Ethiopia.

The specific objectives of the study are to:

a) assess regulatory scope of the AML/CTF regime;
b) identify the causes that made Ethiopia *Public Statement* by FATF;
c) measure to what extent that commercial banks of Ethiopia are practicing ML/TF preventives;
d) measure challenges that Ethiopian banks encounter in practicing AML/CTF regime;
e) assess opportunities of practicing AML/CTF regime and ascertain its benefits in commercial banks of Ethiopia.

1.5 Definition of Terms

1.5.1 Money Laundering

Money laundering is the conversion or transfer of money knowingly or through negligence with intent of disguising or concealing its illicit origin (FATF, 2003).

According to Ethiopian FIC (Proc. No. 780/2013: Part 1, Art. 2 (1) and Part 5 Art. 29 (1), **Money Laundering** is the offence, or any person who knows or should have known that a property is the proceeds of a crime and who converts or transfers the property for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of the predicate offence to evade the legal consequences of his actions; 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.

1.5.2 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 (FIC Proc., 2013).

1.5.3 FATF

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas (FATF, 2012).

1.5.4 Politically Exposed Persons (PEPs)

PEPs are individuals who are or have been entrusted with prominent public functions at foreign or domestic. For example, heads of government, senior politicians, senior government, judicial or military officials, and senior executives of state corporations, important political party officials. Business relationships with family members or close associates of PEPS also involve reputation risks similar to PEPS themselves (FATF, 2013). According to Ethiopian FIC Proc. (No.780, 2013), 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.

1.5.5 Financial Institutions

Financial Institutions include banks, 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). The proclamation also requires to cover the duties of accountants and lawyers.

1.5.6 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).

1.5.7 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).

1.5.8 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, 2003).

1.5.9 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).

1.5.10 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.

1.5.11 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 standards (www.fatf-gafi.org/).

1.6 Research Methods

In order to attain the objectives of the study and answer the research questions; both quantitative and qualitative (Mixed) research approaches were used. The rationale of using such a mixed approach was to gather data that could not be obtained by adopting a single method (Creswell 2003).

The method of data collection techniques consists of survey, interviews and document analysis. With regard to survey, questionnaires were distributed to all government and private banks' Compliance Department Managers and to Financial Intelligence Center. The questionnaires and interview were designed to get the view and observations of respondents' on the practices of AML/CTF system.

The questionnaires were of two types. The first was distributed to 38 bank compliance staff respondents and the second was distributed to FIC office. The purpose of using two types of questionnaires is to get more assurance for the problem raised. More than 95% of the respondents have responded completing them. Interviews were conducted only with concerned Higher Officials of FIC.

The data gathered by using questionnaire and interview are supported by different documents obtained from records and reports of the industry. Books, articles scholarly journals and websites have also been used.

Finally the data obtained from survey are analyzed by using descriptive statistics, statistical package for social science (SPSS, version 20).

1.7 Significance of the Study

The study has the following significance.

- ¾ The finding generated by this study enables concerned organs to grasp the necessary information about money laundering and terrorist financing in relation with their preventive measures.
- ¾ It gives a lesson to those who have concerns about AML/CTF level of practices in Ethiopia's commercial banks, such bankers, policy makers, supervisory organs, etc .
- ¾ It initiates the concerned organizations/regulatory bodies to reassess AML/CTF existing practices and adjust their concerns, such as FIC, NBE, Police, Courts, FATF, etc.
- ¾ It serves as a reference material for both academicians and practitioners as the issue is rarely studied in the country.
- ¾ It initiates other interested researchers to carry out more extensive studies in the area.

1.8 Scope and Limitation of the Study

According to Part 1, Articles 9 and 10 of the FIC Proc. 780/2013, the AML/CTF regime covers 'Financial Institutions' such as banks, insurance companies, micro finance institutions, postal savings, money transfer agents or any other institution designated by the National Bank of Ethiopia. Designated Non-Financial Businesses and Professions include real estate agents and brokers; dealers in precious metals or precious stones; lawyers, notaries and other independent legal professionals when they prepare for, carry out or engage in transactions for their clients concerning; independent accountants; and such other businesses and professions as may be designated by the FIC.

From these legal coverage of entities, only commercial banks are purposely selected, and the remaining are excluded from the study. Those financial institutions are selected from the total population; based on their real AML/CTF regime practices in the country. Hence, in this regard, the purposive sampling procedure decreases the generalizing of findings and this study might not be generalizable to all areas of financial institutions.

The other limitation of the study was the unavailability of written data in the country in relation with ML/TF since it is a relatively new issue. It was also difficult to get the questionnaires filled with ease because some respondents felt precautious to give adequate information for fear of management/board reaction as the topic is sensitive.

1.9 Organization of the Study

The legislators and executive bodies of Ethiopia, by adopting the UN's and FATF's standards, have promulgated rules and regulations to curtail the practice of money laundering and terrorist financing in financial services. To this end, they are calling upon banks to play an integral role in the implementation of laws. This research is organized in five chapters in order to address the AML/CTF regime scope with their ML/TF preventive measures while practicing in commercial banks of the country. The challenges of AML/CTF regime vis-à-vis their benefits when implemented in banks are evaluated.

The first chapter covers the general background, statement of the problem, research questions, objectives, scope & limitations, significance of the study and definitions of terms. The historical development of money laundering, its processes & impacts, legal framework of ML/TF regime preventive measure at global, regional and national responses to fight such threats are discussed in the second chapter to establish a foundation for discussing the issue from the Ethiopia's commercial banks perspective in the second chapter. Challenges with opportunities of AML/CTF regime implementations are included in this chapter.

Research design and method are covered in the third while the fourth chapter deals with the results and discussions of the research paper. Further, chapter four contains legal documents assessed, interview conducted and questionnaires administered to respondents. Following this, the last chapter looks into the AML/CTF regime practices of the country and the ML/TF preventive measures from the perspective of commercial banks. And finally, conclusion and recommendations are forwarded in the fifth chapter.

CHAPTER TWO

LITERATURE RIVIEW

2.1 Introduction

Money laundering and financing of terrorism are global problems that not only threaten security but also jeopardize stability, transparency and efficiency of government systems by undermining economic prosperity (Paradise, 1998 & Portolano, 2003). Money laundering and the financing of terrorism weaken the financial systems which are the main players for global financial transactions (Vaithilingam & Nair, 2007 and Simwayi & Guohua, 2011).

Almost all countries in the world have been implementing and practicing AML/CTF regime in their respective banks.

This chapter reviews the literature on ML/TF and the legal prevention measures to the current practices in financial institutions, particularly commercial banks.

2.2 History of Money Laundering

The origins of money laundering can be traced back to as early as 1930s in organized criminal activities (Davies & Saltmarsh,1994). 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 (Steel, 1998).

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 of transactions (washed), so that it comes out the other end as legal (clean) money (Steel, 1998/2005).

2.3 Processes 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).

According to Bedi (2006), and UNDOC (2014), there are three stages in international money laundering depicted in the diagram below. These are **placement-** entry of funds into the banking system, **layering-** distancing of funds from point of entry, and **integration-** usage of funds. Placement covers cash and monetary instrument deposits including bearer instruments. Layering covers funds transfers including trade linked and involves complex offshore ownership structures and accounts across multiple jurisdictions involving many people. Integration covers investments in properties, securities, and legitimate businesses etc. and typically involves longer-term investments.

Source: Bedi (2006), www. unodc. 0rg

2.4 Legal Framework to Prevent ML/TF

Despite the fact that the term 'money laundering' may have originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the down 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 with such activity and on those involved in it attempting both to stop criminals profiting from their crimes and to trace back those proceeds in order to reach the kingpin (Quillen, 1991).

Being an international agenda, several conventions have been put in place to criminalize the acts. The 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances was the first Convention (OECD 2013).

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

2.4.1 ML/TF Preventive Measures at Global Level

In 1989, the Group of Seven Industrial Democracies (G-7) created a global money-laundering watchdog organization called the Financial Action Task Force (FATF), with an Organization of Economic Cooperation and Development (OECD) Secretariat in Paris.

The 1999 UN International Convention was the Convention for the Suppression of the Financing of Terrorism hat urges FATF to have more strength on fighting the crime (OECD, 2013).

FATF is responsible for examining money laundering techniques and trends, reviewing existing actions to prevent money laundering taken at national and international level, and recommending additional measures needed to combat money laundering.

FATF published its 'Forty Recommendations' (FATF 40), which identified best practices for tackling money laundering in financial services. UN, in its Convention (The Palermo, 2000), adopted International Convention against Transnational Organized Crime.

In 2001, FATF added the development of standards to combat Terrorist Financing to its mission. Accordingly, it issued “Eight Special Recommendations” to counter the Financing of Terrorism in October 2001, as revised in June 2003, and subsequently published a Ninth Special Recommendation in October 2004. The complete standards are commonly referred to as the 'FATF 40+9 Recommendations'- a strong framework for governments of nations in the world to develop their domestic legislations against money laundering (Desai, 2012).

According to Desai (2012), core recommendations include requirements to:

- ¾ Implement relevant international conventions;
- ¾ Criminalize money laundering and terrorist financing and enable authorities to confiscate proceeds from criminal and terrorists activities;
- ¾ Establish a financial intelligence unit (FIU) to receive and analyze suspicious transaction reports;
- ¾ Ensure effective law enforcement and prosecution of money laundering and terrorist financing crimes;
- ¾ Implement customer due diligence, record keeping and suspicious transaction reporting requirements for financial institutions and designated non-financial businesses and professions; and
- ¾ Ensure that comprehensive and effective mechanisms are in place for international cooperation.

Starting with 7 members, FATF has reached having currently 36 member countries including two regional organizations and 8 FATF-Style Regional Bodies (FATF, 20012/13). The FAFT standards have been endorsed directly by more than 180 jurisdictions around the world as well as by the World Bank, the IMF and the UN.

Consequently, it is possible to say, even if application differs, all countries in the world have been practicing AML/CTF systems in their own financial services, particularly at commercial banks.

2.4.2 ML/TF Preventive Measures at Regional Level

Eight regional bodies similar to FATF, known as FATF- Style Regional Bodies (FSRBs), have been developed and organized according to geographical regions. These groups are required to promote and implement of anti-money laundering laws and combating the financing of terrorism in their respective regions. In the same token, their primary objective is to facilitate the adoption of universal standards as set out by the FATF and how the 40+9 recommendations can be effectively implemented in their regions (WWW.fatf-gaft.org).

In this regard, Eastern & Southern Africa Anti-Money Laundering Group (ESAAMLG) is the FATF-Style regional African English Speaking group. Ethiopia has been a member country of ESAAMLG recently to fight against ML/TF. According to its Annual Report (2012), ESAAMLG was officially established in 1999 in Arusha, Tanzania through a Memorandum of Understanding (MOU) which was initially signed by nine founding members: Botswana, Kenya, Mauritius, Mozambique, South Africa, Tanzania, Uganda, Zambia and Zimbabwe.

However, different researchers argue that ESAAMLG does not perform much like other FATF-Style Regional bodies (Goredema, 2003). In its 15 years of age, its current members are 17 at June 2014. However, countries that signed the Memorandum of ESMAALG were 14 at the meeting held in Arusha, Tanzania on 27th August 1999. It has added only three members in this period of journey. ML/TF mutual evaluations performed by it are very limited in number.

2.5 AML/CTF Arrangements and Measures in Ethiopia

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

Despite the 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.

2.5.1 Financial Intelligence Center of Ethiopia (FIC)

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. 17 1/2010. 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.

2.5.2 Other Efforts of Ethiopia to Prevent ML/TF

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

- ¾ UN transnational organized crime Convention,
- ¾ UN Vienna Convention against drugs and psychotropic substances and related protocols,
- ¾ Organization of African Unity anti-corruption conventions,
- ¾ IGAD mutual legal assistance convention,
- ¾ IGAD extradition convention, and
- ¾ UN action plan that committed Ethiopia to implement UN Security Council Resolutions 1267 and 1373 UN Security Council.

Despite these efforts, Ethiopia has been stated many times ***'Public Statement' (Black List)*** by FATF, starting 18 Feb. 2010 to 14 Feb. 2014 (www.fatf-gafi.org). FATF declares ***'Public Statement'*** in every four months of the year.

Currently, Proc. 657/2009 and Directive NBE CDD No. 046/20 10 are repealed and replaced by Pro. 780/2013 and AML/CTF Compliance FIC Directive No. 01/204.

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. However, many researchers, including the regulatory body FATF, argue that Ethiopia has strategic deficiency in practicing AML/CTF to prevent the predicament (FATF, 2013 and UNODC, 2012).

2.5.3 Compliance Function in Banks

Laws, customs and codes are meant to bring in a semblance of order and uniformity in conduct of the various stakeholders. Compliance to these ensures orderliness and reduces overall systemic vulnerability. For this, it is imperative that the regulated entities such as banks are willing to commit themselves to the laws of the land and comply with the regulations, including self-regulations. In securing compliance, regulators have adopted different strategies ranging from codification of laws, rules and regulations, to periodical meetings with the subjects- review mechanism (Lagzdins & Sloka, 2012).

Compliance is a theme that pervades all spheres of banking functions. Bankers deal with complicated legal, regulatory and supervisory issues all the time, transcending various spheres of banking operations. For these complicated tasks, an independent Compliance Officer shall be appointed at the banks (FATF Methodology, 2013 and Basel, 2005).

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 starting 2010.

To discharge these responsibilities, commercial banks have been legally required to establish Compliance Units by designating Compliance Officers at the Senior Management Level to be responsible for issuing compliances (Proc. 780/2013, Art. 11(3)). This type of practice is common worldwide in banks. For instance, Basel stated by No.24 as, bank compliance officer shall be independent; each bank should have an executive or senior staff member with overall responsibility for co-coordinating the identification and management of the bank's compliance risk and for supervising the activities of other compliance function staff (Basel, 2005). However, some people argue against its practicality in Ethiopian commercial banks.

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

Further, Ethiopia faces a number of significant vulnerabilities that pose continual and increasing risks of money laundering and terrorist financing (Tu'emay, 2013). According to Tuem's (2013) explanation, these include

- ¾ the prevalence of a significant informal and largely cash-based economy;
- ¾ the prevalence of high-level serious crimes, such as corruption, tax evasion, smuggling, trafficking (human, drugs, and arms), and illicit financial flows;
- ¾ limited awareness of the problems of money laundering and terrorist financing and their impacts;
- ¾ poorly managed, porous borders;
- ¾ limited control mechanisms over movement of cash;
- ¾ regional instability and the growing presence of transnational criminal networks in the region, extending into other sub-regions including the Sahel and West Africa; and

¾ limited measures on anti-money laundering and countering the financing of terrorism (AML/CFT) and inadequate capacities to implement existing frameworks and legislation.

2. 6 ML/TF Impacts to the Economy

Criminal enterprises and terrorist financing operations succeed largely to the extent that they are able to sanitize and conceal their proceeds by moving them through national and international financial systems. The absence of, or a lax or corrupt, anti-money laundering regime in a particular country permits criminals and those who finance terrorism financing to operate, using their financial gains to expand their criminal pursuits and fostering illegal activities such as corruption, drug trafficking, illicit trafficking and exploitation of human beings, arms trafficking, smuggling, and terrorism (Hannan, 2007)

While money laundering and the financing of terrorism can occur in any country, they have particularly significant economic and social consequences for developing countries, because those markets tend to be small and, therefore, more susceptible to disruption from criminal or terrorist influences. Money laundering and terrorist financing also have significant economic and social consequences for countries with fragile financial systems because they too are susceptible to disruption from such influences.

2.6.1 The Adverse Implications of ML/TF for Developing Countries

ML/TF increased crime & corruption, damaged reputation & international consequences, weakened financial institutions, undermined legitimate businesses and damaged privatization efforts.

Chatain and other four writers (2009), in their book entitled Preventing Money Laundering and Terrorist Financing, elaborated that the establishment of a robust system of sanctions, whether criminal, civil, or administrative, is, as the FATF recommendations make clear, critical to making sure banks play their vital role in the detection and deterrence of money laundering and terrorist financing. Without such a system to back it up, even the most comprehensive array of anti-money laundering and combating the financing of terrorism (AML/CFT) regulations and policies will not function effectively.

Banks must recognize that failure to implement appropriate AML/CFT compliance procedures will bring legal and financial liabilities that can damage their reputations as well as their profitability (Ross, 2007).

2.6.2 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:

- ¾ a weak AML/CFT regime;
- ¾ some or many types of financial institutions that are not covered by the AML/CFT framework;
- ¾ little, weak or selective enforcement of AML/CFT;
- ¾ ineffective penalties, including difficult confiscation provisions; and
- ¾ 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.

2.6.3 Damaged Reputation and International Consequences

A reputation as a money laundering or terrorist financing haven, 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.

2.6.4 Weakened Financial Institutions

Money laundering and terrorist financing can harm the soundness of a country's financial sector, as well as the stability of individual financial institutions in multiple ways. The consequences are applicable to all types of financial institutions, such as banks, securities firms, insurance companies, microfinance institutions, and investment management firms.

The adverse consequences generally described as reputational, operational, legal and concentration risks are interrelated. Each has specific costs, such as loss of profitable business, liquidity problems through withdrawal of funds, termination of correspondent banking facilities, investigation costs and fines, asset seizures, loan losses and declines in the stock value of financial institutions.

2.7 Challenges of AML/CTF Implementation and Practices

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

Other contextual challenges that might significantly influence the effectiveness of a country as well as its banks' AML/CFT measures include the maturity and sophistication of the regulatory and supervisory regime in the country; the level of corruption and the impact of measures to combat corruption; or the level of financial exclusion. Such factors may affect the ML/FT risks and increase or reduce the effectiveness of AML/CFT measures (FATF Std., 2012).

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

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

Dr. Chaikin (2014), in his study, examined that a critical feature of the FATF Standards is the requirement that all financial institutions know their customer, so that they do not unwittingly assist in the laundering of illicit funds. There is a requirement that customers will be classified according to their AML and counter-terrorism financing (CTF) risk, with enhanced Customer

Due Diligence measures applied to higher risk customers, such as PEPs, according to Chaikin (2014).

2.7.1 Banking Technology

Technological development, particularly information processing, has been the last few decades' main force of change, not only in financial services, but in all sectors, ranging from education to entertainment through manufacturing and even in agriculture (FATF Standard, 2012). As a result many sectors have changed and are changing their strategies to adapt to the dynamic economy need. The penetration of new information technology and the advances of the new economy across the world remain significantly uneven. Hence, policy makers are facing the challenge to create an enabling environment for newly created business models (Grais & Kantur, 2003)

Though using modern banking information technology's benefits for the development and growth of commercial banks in relation with AML/CTF compliance practices are tremendous; high cost, frequent change of banking software development, shortage of skilled man power in the area, the slow development of telecommunication infrastructure are some of the great challenges to commercial banks of Africa (Oshikoya & Hussain, 2000)). The investments in technological infrastructure and application of these technologies in the financial services industry have been made slow, partially due to public information policies in Africa that restrict access to certain sites (Abiola, 2013).

The tragedy is that the market and AML/CTF compliance aspect urge banks of each nation to own up-to-date banking software, making the challenge worse and worse than ever (Abiola, 2014). If these banks do not comply world's requirement, the consequence is financial sanctioning; being out of the market.

2.7.2 Risks of ML/TF in Commercial Banks

Commercial banks' ML/TF risks are not different from the country's risks. The non-fulfillment of compliance responsibilities is likely to bring to the fore various risks that may have potentially debilitating effects on the bank. FATF Guidance (2013), Basel (2014) and FATF Standards (2012) define ***Bank Compliance Risk*** *as "the risk of legal, regulatory sanctions, material & financial loss, or loss to reputation a bank may sufer as a result of its failure to comply with laws, regulations, rules, related self regulatory, organization standards, and codes of conduct applicable to its banking activities."*

The compliance area is, thus, critically important in identifying, evaluating, and addressing legal and reputational risks. The penalties imposed by regulators/supervisors, including license banning on regulated entities for non-compliance of directions, rules and statutory requirements and the associated “name and shame” that these penalties bring in their wake, are a manifestation of the compliance risk facing banks (Basel, 2005).

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

¾ helps protect the reputation of both banks and national banking systems by preventing and deterring the use of banks to launder illicit proceeds or to raise or move funds in support of terrorism; and

¾ preserves the integrity of the international financial system as well as the work of governments in addressing corruption and in combating the financing of terrorism.

The inadequacy or absence of sound ML/FT risk management exposes banks to serious risks, especially reputational, operational, compliance and concentration risks. Recent developments, including robust enforcement actions taken by regulators and the corresponding direct and indirect costs incurred by banks due to their lack of diligence in applying appropriate risk management policies, procedures and controls, have highlighted those risks. These costs and damage could probably have been avoided had the banks maintained effective risk-based AML/CFT policies and procedures, (Basel, 2010).

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

As stated in the FATF's Guideline (2013) and Basel (2005), commercial banks should mitigate these risks, by practicing the FATF 40+9 Recommendations of compliance programs such as AML/CTF independent compliance officer designation, approved policy and procedure, fulfillment of resources, customer identification, wire transfer, record keeping, training, suspicious transaction reporting and information sharing.

2.8 Opportunities of AML/CTF Practices in Commercial Banks

According to Bartlett (2002), an effective framework for anti-money laundering and combating the financing of terrorism has important benefits, both domestically and internationally, for a country and its commercial banks. These benefits include lower levels of crime and corruption, enhanced stability of financial institutions and markets, positive impact on economic development and reputation in the world community, enhanced risk management techniques for the country’s financial institutions, and increased market integrity.

2.8.1 Fighting Crime and Corruption

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

An effective AML regime is a deterrent to criminal activities in and 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 (Chatain et al, 2009).

2.8.2 Enhancing Stability of Banks

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

2.8.3 Encouraging Economic Development

Money laundering has a direct negative effect on economic growth by diverting resources to less productive activities. Laundered illegal funds follow a different path through the economy than legal funds. Strong AML/CFT regimes provide a disincentive for the criminal involvement in the economy. This permits investments to be put into productive purposes that respond to consumer needs and help the productivity of the overall economy (Chatain et al, 2009).

2.9 ML/TF Preventive Measures in Commercial Banks

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

a. assigning an independent compliance officer at managerial level,
b. conducting approved compliance policy and procedure,
c. allocating adequate resources to handle tasks,

d. conducting customer identification procedures (CDD),
e. conducting procedures to meet reporting requirements and lines,
f. conducting record keeping obligations,
g. conducting PEPs monitoring requirements,
h. conducting risk assessment procedures,
i. conducting procedures for compliance audit review,
j. conducting client account monitoring,
k. providing training to employees,
l. reporting suspicious accounts and cash transaction reports,
m. conducting automatic customer screening,
n. conducting information sharing with regulatory organs and others.

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

CHAPTER THREE

RESEARCH DESIGN AND METHOD

3.1. Research Design

There are three main categories of research design: exploratory, descriptive and explanatory (Elahi & Dehdashti, 2010). The Exploratory method of design is used to formulate the problem, develop hypotheses, identify constructs, establish priorities for research, refine ideas, clarify concepts, etc. Descriptive method helps to describe characteristics of certain groups, estimate proportion of people in a population who behave in a given way, and to make directional predictions. Explanatory method is used to provide evidence of the relationships between variables, the sequence in which events occur, and/or to eliminate other possible explanations.

This study is then both descriptive and exploratory since it is aimed to investigate how AML/CTF is being practiced in the commercial banks of Ethiopia.

Besides, a research method can be qualitative, quantitative or mixed. Quantitative research as a formal, objective and systematic process in which numerical data gathered, is utilized to obtain information (Creswell, 2009). Qualitative research is an investigative methodology that is grounded in a philosophical position that focuses on making sense of the social world through a process involving how it is experienced, understood and interpreted (Mmuya, 2007). According to Mmuya (2007), mixed research is characterized as a combination of both qualitative and quantitative research approaches.

Among the aforementioned approaches, mixed (more of qualitative and to some extent quantitative) approach was used in this research in order to address the research questions and thereby to investigate the impact of AML/CTF regime in Ethiopia's commercial banks.

3.2. Population and Sampling Techniques

Structured questionnaires and semi-structured interviews are used in mixed method studies to generate confirmatory results despite differences in methods of data collection, analysis, and interpretation.

Purposive sampling technique is used for this study. A purposive sampling is a sample selected in a deliberative and non-random fashion to achieve a certain goal (Kumar, 2005).

According to Kummar (2005), the primary purposive sampling is the judgment of the researcher as to who can provide the best information to achieve the objectives of the study. Further, the reason why this technique chosen is due to the expectation that these Compliance Officers/Managers and Risk and Compliance Directors would have adequate knowledge on ML/TF and subsequently have knowledge on the prevention measures adopted in their respective banks.

To address these needs and meet the objectives, questioners were distributed to FIC and to all Compliance Officers and their respective supervisors of all government and private commercial banks' at head offices in Addis Ababa.

Moreover, as the issues of AML/CTF are recent phenomenon to the country and to the banks as well, all concerned respondents from all banks were conducted to reply. FIC gave interview and returned completing only some selected questions of the questionnaire.

There were 19 licensed banks that were operating in the country while this study was conducted. Thirty eight questionnaires were distributed and among these, thirty six (95%) were returned.

Among the nineteen banks, three were government owned banks while the rest sixteen were owned private commercial banks (www.nbe.org.et).

Research questioners were prepared only in English since all respondents were qualified, holding senior positions and the official language of the banks is English.

3.3. Types of Data and Tools of Data Collection

To conduct the research, both primary and secondary data were used. The information of the primary data was obtained through interview and questionnaires.

Earlier it had been planned to distribute the questionnaires only to Compliance Officers of banks as the assumption was that the compliance is independent as per the FATF Recommendations and Basel's principles. However, due to some different banks' structural differences, the researcher found that Compliance Officers were found accountable to Risk and Compliance Departments (most of them), some to Controls and some were to others. Therefore, the questionnaires were also distributed to those Compliance Officers were answerable.

The secondary data were FATF's legal documents, such as Recommendations, Annual Reports, Guidance, Evaluation Reports, Research papers, etc., bank policies and procedures, and other relevant documents. Basel Committee of the Banking Supervision documents were the other secondary sources. Others were FATF Style Regional Bodies (FATFSRBs) such as Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and sub regional units such EGAD AML/CTF legal documents were assessed and used as secondary data sources.

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

3.4. Procedures of Data Collection

Two types of questionnaires were prepared. One for FIC containing interview questions while the other was composed of written questions to be filled in written as figure is very sensitive.

The second type of questionnaire was prepared to be filled by commercial banks' respondents which had four content parts: The first was Section (A) that requested respondents to provide information on their demographic profile such as qualification, position, marital status and years of experiences in the banks.

The remaining three sections contained the Five-Point Likert Scale ranging from '5' strongly agree to '1' as strongly disagree to be replied by respondents.

Then, the next was Section (B) which comprised international ML/TF preventive measurement standards. Respondents were requested to what extent they agreed/disagreed for the implementation and practices of ML/TF preventive measures by their respective banks. The third was Section (C) requesting respondents to provide their agreements/disagreements on the listed challenges if faced in their banks while implementing and practicing AML/CTF regime. The respondents were requested to rate listed factors. The last was Section (D) requesting respondents to rate the listed opportunities of AML/CTF compliance practices in their respective banks (Appendix II).

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

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

3.5. Methods of Data Analysis

For the purpose of achieving the objectives of the study, the collected data were analyzed using descriptive methods and SPSS Statistics Version 20. Throughout the analyzing processes, percentages, ratios, mean, standard deviation and relevant statistical methods were employed. Moreover, tables and elaborations were used to present the findings readable and convincing.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. Introduction

This chapter presents the results gained and discussion with three parts: (a) legal documents assessed, (b) interview conducted and (c) questionnaires administered in relation to the set background, set up objectives, research questions and literature review by analyzing the returned data to conclude and make recommendations.

4.2 AML/CTF Regime Regulatory Scope and Initiative

As it is stated in the Literature Review, AML/CTF is a global issue. It is not only a domestic agenda as most citizens often speculate. Rather, AML was initiated by the Group of Seven Industrial Democracies (G-7) in 1989 forming a global money-laundering watchdog organization called the Financial Action Task Force (FATF, 2003).

As money laundering and terrorist financing became widespread worldwide, UN (Res. No. 1267 & 1373) and FATF (Financial Action Task Force) have come up with legally binding Recommendations (40+9) that oblige each world country to implement and practice starting from 2001.

In this regard, in addition to its earlier membership of UN, Ethiopia could not continue disregarding the world common issue of AML/CTF.

Despite delay, Ethiopia has started implementing and practicing AML/CTF regime. To address the first research objective, AML/CTF regime practices in commercial banks is not only the initiatives of Ethiopia's government; it is the global issue initiated by G-7 and endorsed by UN.

4.3 Interview and Questionnaire Forwarded to FIC

It has been about six years by now since Ethiopia has established its Financial Intelligence Center (FIC) following the enactment of Proclamation No. 657/2009 to fulfill FATF's requirement. Since then, as the Literature Review shows, the country has made a lot of tasks in relation with AML/CTF regime's requirements. Despite these, FATF had categorized the country Public Statement (Blacklist) eleven times starting from on 18 February 2010 to 14 February 2014 (www.fatf-gafi.org). Categorizing a county Public Statement, it has many negative impacts.

To address the second question of the study, "Why does FATF find Ethiopia in the category of *Public Statement (Black List)?"*, the interview question forwarded to the FIC was to get the reasons. FIC replied that Ethiopia had criminalized ML in its Penal Code of 2005. Despite this, the government enacted AML/CTF Proclamation No. 657 in 2009. While FIC had been recruiting staff members, taking trainings and preparing internal capacities and documents, FATF started categorizing it Public Statement on 18 Feb. 2010.

The impacts of being Public Statement for a country and commercial banks are negative, according to FIC. Impediment for free flow of trade, reputational stain, repetitive screening, weakening financial institutions capacities are some of the challenges FIC mentioned. To be free from these, the government has been exerting unreserved efforts as per FIC explanation.

The next interview question raised was to get reasons why Ethiopia was delayed starting AML/CTF regime relatively in comparison with other countries. FIC answered that as ML/TF issue was new legal mater at that time, studying the issue had taken times.

The other interview question forwarded to FIC was to get the reasons why the first AML/CTF Proclamation and Customer Due Diligence were repealed and replaced by new ones. FIC, in brief, put the reasons as follows. ML/CF issue is new and dynamic in the world. It needs every time updating. Even FATF updates its working documents continuously. Likewise, Ethiopia's first legal documents had had some shortcomings, such as mismatching with other domestic and international legal documents. Some parts were also missed to be included in the proclamation and directive. So to comply with these, Proc. No. 780/2013 and AML/CTF Compliance Directive No. 01/2014 are enacted.

The last interview question forwarded to FIC was to get a reply to what extent the reporting entities, particularly commercial banks, in the country, were discharging their compliance roles as the banks' compliance duties are considerable for FATF's *Public Statement.* FIC answered that all government and private banks are discharging their legal obligations very well.

To address the research question, ". . .to what extent are that commercial banks of Ethiopia practicing ML/TF preventives?" questions were forwarded to FIC to be completed in written. These were to get number of ML/TF charges convicted, ML/TF Cases on the Process of Investigations, numbers of Suspicious Transaction Reports (STRs) and numbers of Cash Transaction Reports (CTRs) which were collected from reporting entities. FIC replied that Charges and Processes of Investigations are not its mandate. However, it replied in written STRs and CTRs starting from its reporting commencement, January 2012. Table 1 & 2 bellow depict STRs & CTRs.

Table 1: Suspicious Transactions Reports (STRs)

	Banks			Years		
		2010	2011	2012	2013	Total
1	State-owned Banks	-	-	21	226	247
2	Private Banks	-	-	15	318	333
	Total			36	544	580

Source: FIC, 2014

In the Interview, FIC responded that commercial banks started formal reporting on the beginning of January 2012. This shows that almost half of the Year 2012 was a reporting period for banks. Hence, if compared the Year 2013 reports with the six months of 2012, number of STRs in the Year 2013 has increased more than six folds in both state-owned and private banks.

Even if the data collection period covers a year and half as Table 1 depicts, banks are discharging their responsibilities by reporting such a large number of accounts/customers that they imagine suspicious. STRs number increased from time to time; hence, it is possible to say that compliance culture in banks have been enhancing from time to time.

Table 2: Cash Transactions Reports, above the threshold (CTRs)

	Banks			Years		
		2010	2011	2012	2013	Total
1	State-owned Banks	-	-	104774	546166	650,940
2	Private Banks	-	-	143816	448351	592,167
	Total			248590	994517	1,243,107

Source: FIC, 2014

Within these two reporting years: 2012 and 2013; the threshold was Birr 200,000.00 and $10,000.00 (its equivalent other currencies). Thus, within a year and half, all Ethiopian commercial banks reported a total of 1,243,107 CTRs to FIC. This shows the banks' reporting good compliance culture and FIC's vigorous supervision.

4.4 Practices of ML/TF Preventive Measures in Ethiopia's Commercial Banks

The second questionnaire prepared to be filled by commercial banks has four parts: (A) demographic information, (B) preventive measures, (C) challenges/factors and (D) opportunities.

4.4.1 Demographic Information of Respondents

Table 3 of Section A below depicts the descriptive statistics of demographic information of respondents in terms of age, sex, status, qualification and years of experiences in banks.

Table.3: Demographic Information of the Respondents

[redacted]

With regard to qualification, out of the 38 respondents, 69 % (25) are first degree holders. There is no any employee who is below first degree level that are assigned in handling AML/CTF compliance duties at officer status. The remaining 31% of respondents are second degree holders. Therefore, it is possible to say that well qualified employees are assigned in this specific area as many bank employees are diploma holders, according to NBE (2013). However, only 8% female employees are found while the remaining respondents i.e. 92% are male.

From the total respondents, 72% are found in managerial/supervisory positions as the compliance officers' immediate bosses are included (among the 36 respondents, 50% of them are 18 and these 18 are the compliance officers immediate bosses. From the remaining 18 compliance officers (50%); 28% are non-supervisory positions. Hence, from this derivation (50-28= 22 i.e) 56% of compliance officers are not at managerial levels and are dependent. 56% are married while 28% and 46% are non supervisory and not married respectively. From this, it is possible to understand that there are many compliance officers who are not members of the management which is contrary to the FIC Proc. No. 780/2013 Art. 11(3) and the international standards. This addresses the research objective in assessing the regulatory scope of the AML/CTF regime practices.

The next are age and working experiences of the respondents. Those who are bellow 35 years of old are 22%, between 35 and 45 years of old are 56% and above 45 are 22% while those who have less than 5 years of banking experiences are 2%; between 5 and 15 years are 67% and those who have more than 16 years of expiries are 31%. Hence, here, employees who are at fertile and productive age and at the same time those who have good years of banking experiences are assigned to the compliance and compliance related areas in commercial banks of Ethiopia to curve money laundering and terrorist financing.

4.4.2 Extent of ML/TF Preventive Measures Practiced in Commercial Banks

One of the research objectives is to examine the extent of ML/TF prevention measures adopted by Compliance Departments in Ethiopia's commercial banks.

To address this, at what extent the provided ML/TF preventive measurements proposed by the international standards are being practiced in Ethiopia's banks, the respondents are requested to give their feedbacks using a Five Point Scale from '5' as Strongly Agree, '4' as Agree, '3' as Neutral, '2' as Disagree and to '1' as Strongly Disagree in the questionnaire attached (Appendix II).

The feedbacks are summarized by PSSP in descending order using Descriptive of Mean and Std. Deviation put in Table 4 bellow.

Table 4: ML/TF Preventive Measures

ML/TF Preventive Measures	Mean	Std. Devn.
Record Keeping Procedure is conducted	4.31	.920
AML/CTF Training program is conducted	4.08	.806
Updating compliance program is stated	3.89	.950
Customer identification procedures (CDD) is conducted	3.64	1.268
Suspicious and Cash Transactions Reports monitoring are conducted	3.58	1.131
Approved compliance policy and procedure by Board are available	3.47	1.404
Information sharing program is conducted	3.42	1.156
Adequate resources are allocated to the Office of Compliance	3.36	1.477
Periodical audit on Compliance Office is conducted	2.97	1.108
Reporting line procedure is conducted	2.92	1.360
Risk assessment approach is conducted	2.89	1.260
Independent Compliance Officer is assigned at managerial level	2.75	1.296
PEP monitoring and review procedure is conducted	2.08	1.052
Automatic electronic AML/CTF Screening is conducted	1.22	.540

Source: Own formulated PSSP table, 2014

As the SPSS results show in the table above, among the measures that are highly adopted are record keeping (mean score = 4.31, standard deviation = .920) and training program (mean score = 4.08, standard deviation = .806).

Updating compliance program as necessarily (mean score = 3.89, standard deviation = .950), customer identification procedures (CDD) (mean score = 3.64, standard deviation = 1.268), STRs & CTRs monitoring and reporting (mean score = 3.58, standard deviation = 1.13 1), availability of Board approved policy and procedure (mean score = 3.47, standard deviation = 1.404), information sharing program (mean score = 3.42, standard deviation = 1.156) and adequate resources allocation to the Compliance Offices (mean score = 3.36, standard deviation = 1.477) are moderately conducted among the given fourteen preventive measures.

From these international standards, the least measures implemented are the availability of automatic electronic AML/CTF screening (mean score = 2.22, standard deviation = .540) and PEPs monitoring and review 2.08 1.052 (mean score = 2.08, standard deviation = 1.052).

This implies that the Ethiopian commercial banks are practicing ML/TF preventive measures by discharging their responsibilities moderately despite the infant age of AML/CTF regime in the country.

4.5 Challenges to Commercial Banks While Practicing AML/CTF

The other objective of the study is to explore the challenges that hinder the practices and implementation of AML/CTF regime in commercial banks of Ethiopia. Respondents were requested to provide their feedback to the given ten listed challenges based on a Five-Point Scale ranging from '5' as Strongly Agree, '4' as Agree, '3' as Neutral, '2' as Disagree and to '1' as Strongly Disagree. Table 4 exhibits the challenges bellow descending order of SPSS.

Table 5: Challenges of Implementing and Practicing AML/CTF Compliance Regime

Challenges	**Mean**	**Std. Dvn.**
PEP's CDD/KYC compliance practices in a bank are difficult	4.11	1.090
Enabling Technology Infrastructure (IT) is not available	3.94	.860
Costs are higher in implementing AML/CTF programs	3.89	1.090
AML/CTF awareness in media is lower in the country	3.86	1.150
Implementing CDD without National ID in a bank is difficult	3.69	1.142
Bank AML/CTF practice among cashed-society is difficult	3.56	1.362
Enabling resources are allocated	3.33	1.146
National culture is supportive in practicing AML/CTF	3.25	1.360
There is high support to compliance from top level management	2.81	1.390
Adequate expert compliance staff are assigned	2.61	1.271

Source: Own formulated SPSS data results, 2014

Bank compliance staffs and their boss respondents confirmed that PEPs CDD practices, banking technology infrastructure, AML/CTF costs and AML/CTF awareness in media are critical challenges for the implementation and practices of AML/CTF program in Ethiopian commercial banks as the mean score and standard deviation reveal 4.11 & 1.090, 3.94 & .860, 3.99 & 1.090 and 3.86 & 1.150 respectively.

Some studies witnessed that measuring PEPs with regard to CDD/KYC is very difficult for banks. For instance, Chaikin (2014) claimed saying the FATF Standards impose more stringent obligations on financial institutions where PEPs open up bank accounts (in opposition to the obligations imposed in the case of regular clients, who are not identified as PEPs).

The issue of banking technology infrastructure is the second serious challenge that hinders AML/CTF practices in the commercial banks of the country as the data confirms. Challenge of AML/CTF cost follows third. As Literature Review confirms, the issues of banking technology infrastructure and AML/CTF costs to banks, especially in developing countries, are serious challenges. Despite these, top level support and assigning adequate staff to Compliance Office are the least challenges to banks as the mean score of 2.81 & 2.61 and standard deviation of 1.390 & 1.271 reveal respectively below the neutral score i.e. 3.

4.6 Opportunities to Commercial Banks While Implementing AML/CTF Regimes

The last question of the paper requires the level of agreement to AML/CTF regime practices if banks get opportunities to be rated by respondents based on a Five-Point Scale ranging from '5' as Strongly Agree, '4' as Agree, '3' as Neutral, '2' as Disagree and to '1' as Strongly Disagree.

Respondents agreements of AML/CTF regime implementation opportunities are put in descending order of PSSP output bellow.

Table 6: Opportunities of AML/CTF Regime Practices in Ethiopian Banks

Opportunities: By implementing AML/CTF system practices in a bank,	Mean	Std. Dvn.
its reputation is kept and improved.	4.31	.668
safety and soundness of the bank are enhanced.	4.14	.833
risks will be minimized	4.11	.854
launderers are prevented from getting banking services.	3.86	.990
legal fine and material loss of the bank will not exist.	3.78	1.072
existing customers never leave the bank.	3.19	1.348
profit increases.	3.14	1.199
number of depositors in the bank increases.	3.03	1.341

Source: Own formulated PSSP table, 2014

By implementing AML/CTF regime practices in banks, the opportunities are improved reputation, safety & soundness and minimized risks with the highest mean scores of 4.31, 4.14 & 4.11 and standard deviations .668, .833 & .854 respectively. The rest five opportunities are rated above the neutral numbers. Respondents, in this part, confirmed that banks are beneficiaries when they install and practice AML/CTF regime in their own banks. Despite positive feedback, it is possible to depict that respondents are in doubt for the profit and deposit increments. While practicing AML/CTF regime, profit and deposit increments of banks have mean score of 3.14 & 3. 03 and standard deviation of 1.199 & 1.341 respectively.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Anti Money Laundering and Combating Terrorist Financing are the global issues. FATF is formed to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. ML is the long-established issue by the UN. As TF has similar threatening features, UN has endorsed the FATF's 9 Recommendations to be implemented with ML 40 Recommendations by jurisdictions (FATF Recommendations 40+9). To realize FATF 40+9 Recommendations, regional bodies are formed. These regional bodies are required to make member jurisdictions mutual evaluations of AML/CTF practices.

Ethiopia has rectified and adopted UN resolutions No. 1267 and 1373 that have AML/CTF aspects. Further, it has been a full member recently (around 2014) to the FATF-Styled Regional Bodies i.e. Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) to fight against ML/CT with member African countries. As a result, the Ethiopia's FIC is progressively enhancing practices of AML/CTF regime. For this, collecting the STRs and CTRs, delivering training and preparing the compliance directive are some of commendable achievements.

Despite these facts, Ethiopia has been categorized **Public Statement** many times. **Public Statement** has negative impacts to the country, its banks and the public at large. Public Statement entails complicated screening. There is no free flow of trade; unnecessary counter-checks hamper the attraction of Foreign Direct Investment and smooth relationship with world countries. This is confirmed by many documents reviewed and by the interview conducted.

Ethiopia's commitment to fight ML/TF is admirable. However, the review of ICRG-FATF categorized Ethiopia's jurisdictions with strategic AML/CFT deficiencies. The country has not made sufficient progress in addressing its deficiencies or has not committed to an action plan developed with the FATF to address these deficiencies. Hence, the government, policy makers, advisors, banks, FIC, NBE, other financial & non financial institutions and the individuals at large are required to discharge their respective roles to achieve the common goal.

On the other hand studies (Vaithilingam & Nair, 2007 and Simwayi & Guohua, 2011) recommend that FATF shall keep its promises and be considerate to the developing countries that are trying their utmost to practice AML/CTF, such as Ethiopia. Ethiopia has a lot on the issue within these six years.

Categorizing a jurisdiction to a *Public Statement* resulted with cumulative effects. Government Agencies, Financial Institutions, FU, Non-financial Institutions and others can contribute to the Blacklist of a jurisdiction (FATF, 2012). In this regard, banks are the major role players to fight ML/TF. Therefore, Ethiopia's commercial banks ML/TF preventive measures are assessed.

The findings in this study revealed that the Ethiopia's commercial banks have been taking their responsibilities in ML/TF compliance preventive measures significantly. The mean score of each compliance measure is considerably above average. Among the measures that are highly conducted by commercial banks in Ethiopia are record keeping, updating compliance program, customer identification procedures, STRs & CTRs monitoring and reporting, availability of Board approved policy and procedure, information sharing and adequate resource allocation.

However, though most mean scores of these ML/TF preventive measures are above average; they are concentrated nearer to neutral score. This indicates that some doubts of practices exist.

The clear shortcomings of the banks are two. AML screening and PEPs CDD measures are below average. These are also confirmed in the challenge parts of the feedbacks. Further, ML/CTF costs, banking technology infrastructure and AML/CTF awareness in media are serious challenges for the implementation and practices of AML/CTF program.

Contrary to these serious challenges, the finding confirmed that commercial banks are very aware of the opportunities of AML/CTF regime practices as all the opportunities are agreed positively.

5.2 Limitation

The study was limited by the fact that the researcher administered questionnaires and structured interview only to FIC and compliance managers/officers of commercial banks. Therefore, only these Compliance managers and FIC here informed the findings of the study while the view of junior compliance employees, bank presidents, legal enforcements such as police and courts were not factored.

It was also difficult to access data such as written reports, studies, books in the library as the issue of ML/TF is new. Further, some respondents were hesitant to complete the questionnaire with ease and confidence due to fear of potential reactions from supervisors. These would have their own impacts of limitation to the findings.

The other constraint was time.

5.3 Recommendations

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

¾ FATF should encourage Ethiopia's efforts. Despite delay, Ethiopia formed FIC six years ago. FIC has made remarkable efforts; one is that it is pushing and urging banks to discharge their AML/CTF required responsibilities. Giving trainings, developed directive, provided AML/CTF supportive software to banks. Hence, FATF should encourage such efforts and shall make Ethiopia free from Public Statement category. Instead, technical support shall be given to the country to improve the gaps. Practicing AML/CTF system is costly, as the respondents and many research papers in the

Literature Review confirmed. FATF's and other developed nations institutions' package of assistance covering internal strategy and management, skills development, technology support are necessary for developing regimes to achieve the common goal.

- ¾ Though Ethiopia made such types of efforts, the study also found that there are much ML/TF preventive measures yet to be enhanced. There is no automatic electronic screening practicing in commercial banks in the country. That means, banks are required to identify customers and transactions manually. Here, the banks' vulnerabilities of being exposed to ML/TF risk are very high. Hence, the study recommends that banks must buy screening software and practices as soon as possible to fulfill legal requirements and then mitigate their compliance risks.

- ¾ The Ethiopian banks are not at the same level of development in using banking software. Due to their purchasing power, employee’s professional skills, country's telecommunication development and with other remaining reasons; the finding showed that banking infrastructure is the serious challenge to practice AML/CTF regime. The study recommends that FATF shall appreciate and be considerate with realities and that the national policy makers shall study the problem and seek lasting long solutions.

- ¾ Though preventive measures are moderately being practiced, as the mean figures of most of them are nearer to the neutral number; policy makers of commercial banks, NBE, FIC shall follow up the realities and revise their measures.

- ¾ Government policy makers (the parliament, executive and the judiciary) are required to provide PEPs CDD implementation procedures to banks. The study finding witnessed that the serious challenge banks faced is the implementation of PEPs CDD and their families identification procedure to fulfill the FATF's and FIC's requirements.

- ¾ The study recommends that regulatory bodies such as NBE and FIC shall follow up the Proclamation's proper implementations in banks, particularly forming the independent compliance officers at the management level with a clear reporting procedure. Otherwise, the country and banks are exposed for high vulnerability of compliance risks by violating the FATF's international standards and the national legal mandates. If compliance officers are not independent, they cannot report what they are mandated. Further, their monitoring procedures will be limited. If they are not management members, they cannot get balanced information about the banks' functions.

- ¾ More than monitoring, getting the public trust is the most important aspect of realizing AML/CTF regime practices in the country. Hence, FIC shall make the people aware about benefits of AML/CTF using professional public awareness programs and advertisements as the respondents confirmed that the public awareness is the other challenge.

- ¾ The study recommends national policy makers shall properly understand what FATF particularly requires from Ethiopia and shall address these as soon as possible. The researcher believes that Ethiopia has made a lot of AML/CTF requirements. What remains are paper works such as action plan, national assessment, mutual evaluation, and others.

- ¾ However, since this is a beginning, further research is suggested on the same topic.

- ¾ Finally, as this study focuses on the banking sector, further research is needed on the other financial and nonfinancial sectors which are vulnerable to money laundering and terrorist financing.

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APPENDIX I: STRUCTURED INTERVIEWS DESIGNED FOR FIC

St. Mary's University

School of Graduate Studies

This questionnaire is prepared to collect data for the research to be conducted on: **Anti Money Laundering and Combating Terrorist Financing (AML/CTF) Compliance Practices in Ethiopia's Commercial Banks: Opportunities and Challenges.**

The research is to serve the requirement of MBA Thesis. To arrive at appropriate conclusion, you are kindly requested to provide with accurate, complete and genuine data to the best of your knowledge. I assure you that the data shall not be used for the purpose other than this research. For your cooperation and the sacrifice of your precious time, I thank you in advance.

.... // ......

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

I. AML/CTF practices in State-Owned and Private Banks

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

Here, your good office is kindly requested to fill the cases listed in the tables bellow (A to D)

A. ML/TF Charges Convicted

	Banks	Years				
		2010	2011	2012	2013	Total
1	State-owned Banks					
2	Private Banks					
	Total					

B. ML/TF Cases on the Process of Investigation

	Banks	Years				
		2010	2011	2012	2013	Total
1	State-owned Banks					
2	Private Banks					
	Total					

C. Suspicious Transactions Reports

	Banks			Years		
		2010	2011	2012	2013	Total
1	State-owned Banks					
2	Private Banks					
	Total					

D. Cash Transactions Reports (above the threshold)

	Banks			Years		
		2010	2011	2012	2013	Total
1	State-owned Banks					
2	Private Banks					
	Total					

II. Interview Questions

1. Ethiopia has been stated ***Public Statement*** many times in relation with AML/CTF regime by FATF. What are the reasons?
2. The first AML/CTF proclamation and CDD directive are repealed and substituted by the new ones. Did they have deficiencies? What were they?
3. Ethiopia started implementing AML/CTF relatively late in comparison with world countries. What are the reasons?
4. Being categorized *Public Statement*, what are the challenges to Ethiopia generally and to financial institutions/banks particularly?

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APPENDIX II: QUESTIONNAIRES PROVIDED TO BANKS' RESPONDENTS

St. Mary's University

School of Graduate Studies

This questionnaire is prepared to collect data for the research to be conducted on: **Anti Money Laundering and Combating Terrorist Financing (AML/CTF) Compliance Practices in Ethiopian Commercial Banks: Opportunities and Challenges.**

The research is to serve the requirement of MBA Thesis. To arrive at appropriate conclusion, you are kindly requested to provide with accurate, complete and genuine data to the best of your knowledge.

I assure you that the data will not be used for the purpose other than this research. For your cooperation and the sacrifice of your precious time, I thank you in advance.

.... // ....

A. Background Information

Name of the Bank..

Questionnaires for Compliance/Risk Staff of a Bank

Please put a tick mark (~) on the table space provided.

Type	**Category**	**Please put a tick mark(~)**
Qualification	Below Degree	
	Degree	
	Masters Degree	
Sex	Male	
	Female	
Position	Managerial/supervisory	
	Non-managerial	
Marital Status	Married	
	Not Married	
Age	< 35 years	
	Between 36 & 45	
	> 45	
Experiences	0 - 5 years	
	6 - 10 years	
	11 - 15 years	
	> 16 years	

B. Bank ML/TF Preventive Measures

Please tick (~) the AML/CTF compliance practices in your bank that best describes to the extent how they are applied.

¾ **KEY: 5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree and 1 = strongly disagree**

	AML/CTF Preventive Measures	**5**	**4**	**3**	**2**	**1**
1	Compliance Officer is appointed at the senior management level to manage and oversee the operation of the compliance program					
2	Adequate resources are allocated including staff and financial resources to manage the compliance program.					
3	Compliance policy and procedure are prepared and approved by the Board of Directors.					
4	Customer identification procedures are prepared and approved.					
5	Procedures to meet reporting requirements, designation of responsible employees, submission procedure and record retention are prepared and being conducted.					
6	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.					
7	Procedures for compliance officer reporting line, including the one who should conduct, what should be focused and to whom the findings will be reported are prepared and being conducted.					
8	Compliance risk assessment approach, compliance risk areas, risk assessor, evaluation methodology, findings and reporting mechanism procedures are conducted.					
9	Periodic audit to verify the effectiveness of the compliance program is formulated and being conducted.					
10	Updating compliance program is stated in line with the changes in laws/regulation.					
11	Monitoring accounts for suspicious activity is a regular duty of the compliance officer.					
12	Compliance Officer is designated to provide training to employees on identification of suspicious activity, Cash Transactions, legal aspects, compliance policy and procedure, transactions, other banking tasks.					
13	Compliance officer is left to share AML/CTF information with regulatory bodies and other concerned bodies independently.					
14	The bank has an automatic screening tool that identifies PEPs, Suspicious transactions, erroneous activities, etc.					

C. AML/CTF Implementation/Practice Challenges

Please tick (~) the practices in your bank that best describes by choosing your best options.

¾ **KEY: 5 = strongly agree, 4 = agree, 3= neutral, 2 = disagree and 1 = strongly disagree**

	AML/CTF Critical Factors	**5**	**4**	**3**	**2**	**1**
1	There is high support to compliance from top level management					
2	Adequate expert compliance staffs are assigned.					
3	Enabling Technology Infrastructure (IT) is not available.					
4	Enabling budget is allocated.					
5	National culture is supportive to AML/CTF practices.					
6	AML/CTF awareness in media is lower in the country.					
7	AML/CTF implementation costs are higher.					
8	Bank AML/CTF practice among cashed-society is difficult.					
9	Implementing CDD without National ID in a bank is difficult.					
10	PEP's CDD/KYC compliance practices in a bank are difficult.					

D. Opportunities of AML/CTF Implementations/Practices

Please tick (~) to the extent you expect the opportunities of AML/CTF compliance implementation in your Bank.

KEY: 5 = strongly agree, 4 = agree, 3 = neutral 2 = disagree and 1 = strongly disagree

	Opportunities	**5**	**4**	**3**	**2**	**1**
	By implementing AML/CTF system practices in your bank:					
1	profit increases.					
2	risks will be minimized.					
3	money launderers are prevented from getting banking services.					
4	its reputation is kept and improved.					
5	legal fine and material loss of the bank will not exist.					
6	safety and soundness of the bank are enhanced.					
7	number of depositors in the bank increases.					
8	existing customers never leave the bank.					