

St. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES



**Assessment on the Role of Ethiopian Private Banks in
Combating Money Laundering and Their
Effectiveness:
The Case of Dashen & Berhan Banks**

BY:

SOLOMON AYALEW

ID: SGS/0193/2007A

AUGUST, 2016
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**A THESIS SUBMITTED TO St. MARY'S UNIVERSITY, SCHOOL OF GRADUATE
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AUGUST, 2016

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DEDICATION

I dedicate this work to my wife Yodit Getachew, my son Simon Solomon, my daughter Belur Solomon, and the one on the way.

DECLARATION

I, the undersigned, declare that this study entitled " An Assessment on the Role of Ethiopian Private Banks in Combating Money Laundering and Their Effectiveness: The Case of Dashen and Berhan Banks." is prepared with my own effort. I have made it independently with the close advice and guidance of my advisor.

Name: Solomon Ayalew

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ENDORSEMENT

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

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ACRONYMS & ABBRIVATIONS

AML	Anti Money Laundering
AMLRO	Anti-Money Laundering Reporting Officer
BCBS	Basel Committee on Banking Supervision
CDD	Customer Due Diligence
CFT	Countering Financing Terrorism
ESAAMLG	Eastern and South Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Center
ICRG	International Co-operation Review Group
ICT	Information and Communication Technology
INSA	Information Network Security Agency
IMF	International Monetary Fund
KYC	Know Your Customer
NBE	National Bank of Ethiopia
ML	Money Laundering
PEP	Political Exposed Persons
TI	Transparency International
UNODC	United Nations Office on Drugs and Crime
UNTOC	United Nations Convention against Transnational Organized Crimes
UNC	United Conventions against Corruption
WB	World Bank

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ABSTRACT

Money Laundering has a significant economic and social consequence for countries worldwide. It adversely affects the financial sector at international level as they are major channels for fund transactions. There is a rapid increase of financial crime and illicit funds that are being exchanged after they are laundered mainly through banks and used to finance other illegal activities such as organized crimes. This triggered the international community to react in an organized way against money laundering and countries that have deficiencies in anti-money laundering policies and procedures are categorized as high-risk countries. Ethiopia has been on the black list of the Financial Action Task Force (FATF) until recent years. The National Bank of Ethiopia and the Financial Intelligence Center have made significant efforts in fighting money laundering and they comply with the international standards thereby enabling Ethiopia to come out of the black list. The study examined the role private banks play in curbing money laundering and their effectiveness, with particular focus on Dashen and Berhan Banks as a case study. To collect the information for the case study from the targeted Banks and the Financial Intelligence Centre, questionnaires, interview, literature review and observations were applied. From the study, the regulatory bodies especially the FIC requires all banks to implement AML/CFT regulations which are based on the recommendations by FATF. It was observed that both Banks have various anti-money laundering procedures. Although it obvious that both Banks have various AML procedures they have not been able to successfully implement them due to some weaknesses and strong challenges. These were mainly as a result of weaknesses in the internal compliance function structures of the Banks such as : lack of trained manpower, adequate staff; lack of AML software, focus on deposit mobilization and profit as well as insufficient co-operation from and among competent authorities. It is recommended that the Banks to strengthen their compliance function acquire AML software, take the initiative to fight against money laundering and for the regulatory bodies to enhance the efforts by taking measures to facilitate the effective implementation of AML in Ethiopia financial sector.

Key Words: AML, BANKS, EFFECTIVENESS, FATF, FIC, CO-OPERATION

CHAPTER ONE

INTRODUCTION

In this paper the researcher assesses the role of private banks in Ethiopia in combating money laundering and their effectiveness in the case of Dashen and Berhan Banks. The researcher also gives insights into money laundering and its countermeasures at international level and close down on the Ethiopian context.

1.1 Background of the Study

The issue of Money laundering and financing of terrorism gained momentum and global recognition after the events of 9/11, 2001 in the United States of America. However, it is not the very start of combating Money Laundering. To this effect, in 1989 the international community established Financial Action Task Force (FATF) which is known as the international standard setter for anti-money laundering efforts (FATF, 2012).

According to FATF, the term “money Laundering” is defined concisely as “the processing of criminal proceeds to disguise their illegal origin” in order to “legitimize” the ill-gotten gains of crime (FATF, 2006).

Money laundering is not a simple crime which can easily be detected by just making normal investigation because it has many layers and involves several parties to commit it. As a result, it is not only a problem to few financial institutions and individuals but the society as a whole. Based on the data obtained from the United Nations Office on Drugs and Crime (UNODC), the estimated amount of money laundered globally in one year is (2-3-5.5 %) of global GDP, which is US\$2.1 trillion (UNODC, 2011).

Money laundering has adverse economic and social consequences for countries worldwide. It debilitates the financial systems which are the main players for global financial transactions (Vaithilingam & Nair, 2007; Simwayi & Guohua, 2011). This will endanger the development of these nations. For money laundering to take place illegally obtained funds should exist. Financial institutions are vulnerable to be used as a medium by money launderers to clean the ‘dirty’ money due to their efficiency and low cost in carrying out financial transactions (Masciandaro, 1999).

The Financial Action Task Force (FATF), which is internationally mandated to ensure that financial institutions are well regulated and comply with international standards, imposes the 40+9 recommendations on all countries to take strong measures on implementing the recommendations and to enact laws on Anti money laundering/Counter Financing Terrorism (AML/CFT) through their Financial Intelligence Unit/ Center (FATF,2006-2007).

The detection of money laundering and other financial crimes require cooperative efforts from the government (law enforcement agencies), financial regulatory bodies, banks and the general public (FATF, 2006). This enables to expose individuals with criminal intentions before they could manage to make use of the financial system.

In realizing the adverse effect of money laundering and other financial related crime activities to the countries' economic, political and social structure, the Ethiopian government has taken some measures in fighting money laundering and terrorism financing. The efforts made in combating money laundering and terrorist financing in Ethiopia is relatively recent. In 2009, the first comprehensive law concerning Anti –money Laundering and combating financing terrorism was developed but it was repealed and substituted by a new law in 2013. The implementation of a preventive mechanism for money laundering and terrorist financing was started in 2012, based on the previous law (Tu'emay, 2013).

However, after the passing of the Act, there seems to be a limited number of studies in relation to AML measures adopted by the Ethiopian commercial banks. This paper tries to fill the study gap. It also assesses the effort made by Ethiopian financial regulatory bodies, and discusses the role Ethiopian commercial banks in the fight against money laundering and their level of effectiveness in the case of Dashen and Berhan Banks.

1.2 Statement of the Problem

Money laundering and other financial-related crimes have adverse economic, political and social consequences for countries worldwide. These crimes weaken the financial systems which play the major role in global financial transactions. This in turn endangers the socio-economic development of these nations. In this regard Ethiopia has joined the fight against money laundering in recent years. The Government of Ethiopia with its regulatory bodies, i.e., National Bank of Ethiopia (NBE) and Financial Intelligence Center (FIC) took the appropriate actions to comply with the international regulatory body which is Financial Action Task Force (FATF) 40+9 recommendations, by introducing the issue of money laundering through proclamations and Directives.

There have been many cases of illegal monies been smuggled through to various parts of the world, especially developing countries like Ethiopia. The main potential stream for money laundering are financial institutions particularly, banks if they provide convenient route in which the laundered money flows. As a result the financial institutions are the focal points where anti money laundering programs are implemented in order to prevent the first money laundering at their initial point.

The First issue identified in this study is the laws, regulations as well as the requirements the regulatory bodies set for the financial institutions in Ethiopia and the efforts they made in combating money laundering.

The second and the main focus of this study is therefore be to assess the part Ethiopian Private commercial Banks are playing in combating money laundering and their effectiveness in the case of Dashen and Berhan Banks. It also assesses the fulfillments of the requirements made by the regulatory bodies from banks in dealing with money laundering, the efforts they took in detecting and preventing the transactions of illegal money. Moreover, the study tries to identify the challenges encountered by the targeted two private commercial banks in their attempt towards curbing money laundering and how they are solved.

1.3 Research Questions

- a) What are the efforts made by the Ethiopian financial regulatory bodies in fighting against money laundering and toward compliance to the international standards (FATF)?
- b) What do the National Bank of Ethiopia and Financial Intelligence Centre require of commercial banks in dealing with money laundering?
- c) What effective measures did both Dashen and Berhan Banks take to comply with the regulatory requirements to deal with money laundering?
- d) What are the challenges encountered by both Dashen and Berhan Banks in combating money laundering?

1.4 Objective of the Study

General Objective

The general objective of the study is to assess the role Ethiopian private banks in the fight against money laundering and their level of effectiveness and the effort made by Ethiopian financial regulatory bodies.

Specific Objectives

- a) To identify the efforts made by the Ethiopian financial regulatory bodies on fighting against money laundering and compliance to the international standards.
- b) To determine the expectation of regulatory bodies from Ethiopian commercial banks and in dealing with money laundering.
- c) To assess the measures taken by both Dashen and Berhan Banks have in place in fighting against money laundering and their level of effectiveness.
- d) To identify the challenges both Banks encounter in combating money laundering.

1.5 Definition of Terms

Blacklisting: This is a list of countries or territories that are not cooperative in establishing AML regimes (Commonwealth Secretariat, 2006).

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

“Compliance Function”: An independent function that identifies, assesses, advises on, monitors and reports on the bank’s compliance risk, that is, the risk of legal or regulatory sanctions, financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice (together “laws, rules and standards”) (Basel, 2003).

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

Financial Action Task Force (FATF): An inter-governmental body whose purpose is the promotion and development of policies both at national and international levels to combat money laundering and terrorist financing. FAFT issued 40+9 Recommendations that form a basic framework for anti-money laundering efforts. The FAFT established the list to enhance criminal justice and law enforcement capabilities, better regulation of the financial services sector, and promote international cooperation (FATF, 2003)

Financial Institutions: Financial Institutions mean banks, security firms, insurance companies, forex bureaus, and money remitters (FATF, 2003).

International Crime: The Encyclopedia Britannica defines international crime as crimes that may be carried out in more than one country, in which case they are considered as trans- boarder crimes.

Know Your Customer Concept (KYC): Basel (2001), introduced the KYC concept. According to Basel Committee, KYC ideally involves knowing the ultimate owner of the business or bank account and the nature of offshore funds received.

Money Laundering: The United Nations Office on Drugs and Crime (UNODC) defines money laundering “as an attempt to conceal or disguise the ownership or source of the proceeds of criminal activity and integrate them [proceeds from crime] into the legitimate financial systems in such a way that they cannot be distinguished from assets acquired by legitimate means”.

“Suspicious transaction”: Unusual transaction because of either the person conducting the transaction or the size, volume, type or pattern of the transaction, it indicates/suggests that the transaction is not a normal transaction and may have some linkages with illegitimate activity.

1.6 Significance of the Study

This paper tries to show the status of the Ethiopian commercial banks in the prevention and fight against money laundering. The paper also tries to state the efforts made by the Ethiopian financial regulatory bodies in dealing with the issue of money laundering. It is believed that the findings will add to the growing knowledge of money laundering as international crime and the measures the international community are taking to curb its severe impact on national and international socioeconomic conditions. Despite the growing interest in Money Laundering research, in the Ethiopian context, there are limited studies, most of which are not even published. The findings may also be used as a source of reference for other researchers.

1.7 Scope of the Study

The Scope of the study was limited to the role played by Dashen and Berhan Banks in combating money laundering, their effectiveness as well as efforts made by the regulatory bodies in implementing AML. Due to lack of time and available study materials, other financial institutions have not been covered. The researcher has worked on the targeted Banks at different times and has some awareness on how they are dealing with the issue of compliance and implementation of AML procedures. As a result, the researcher has more access to study materials and has received full cooperation from the expert respondents and other supportive documents. Furthermore the researcher targeted these two Banks, Dashen Bank as representative of senior private banks and Berhan Bank as one of the youngest private banks.

1.8 Limitation of the Study

The greatest limitation of this paper was getting relevant literature on money laundering in Ethiopia’s banking sector.

1.9 Organization of the Report

The thesis was organized in five chapters. Chapter one presents the introduction part of the thesis, and chapter two highlights relevant literature for the thesis. In Chapter three methods adopted in achieving the objectives of the study are presented. Chapter four covers data analysis and results of the study. The final Chapter is a summary of the findings, conclusions drawn and recommendations made following the findings.

CHAPTER TWO

LITERATURE REVIEW

This chapter briefly reviews the literature on the concept of money laundering and the combat against it at international and national levels. It also highlights the challenges encountered and the literature review facilitates the development of a conceptual framework for the study.

2.1 OVERVIEW

Money laundering (ML) has several definitions worldwide. As a working definition, money laundering activity refers to a process of transforming the proceeds of criminality into seemingly legitimate funds. The standard definition and concept of money laundering assumes essential criminal engagement related to organized crime activities, even the possible presence of professional launderers (Levy, 2003).

Legally, money laundering refers only to the proceeds of the predicate crimes which means capable of being sentenced to a year or more imprisonment that depend on the legal system of varies countries but eventually many countries such as the UK extended it to ‘all crimes’ which seek to launder criminal proceeds (Levi and Reuter, 2009).

There are three stages in Money laundering: placement, layering, and integration. The first stage is Placement, which involves the deposit of funds in financial institutions or the conversion of cash into negotiable instruments. The second stage which is called Layering involves the wire transfer of funds through a series of accounts through the financial system in an attempt to hide the true origins of the funds. The final stage is Integration, the step in which mixing the ill-gotten proceeds into the economy as a legitimately acquired money (Chattan, 2009).

It was in recent decades that the issue of money laundering was known at international level. In the 1988 Vienna Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the United Nation declared money laundering internationally as a criminal offence in a drug context (UNODC, 1998). As a result, the Financial Action Task Force (FATF) was established in Paris in July 1989 on the Summit Meeting of the Heads of State or Government of the seven major industrial nations (Group of Seven, or G7), together with the President of the Commission of the European Communities, to combat drug production, consumption and

trafficking. Moreover, it was given the task of preventing the laundering of its proceeds. In order to carry out the given tasks, FATF issued forty recommendations to be used internationally in order to curb the flow of crime money through the banking and financial system and create global cooperation in the fight against money laundering. The recommendations have been accepted and adopted by many countries and international organizations (FATF, 2012).

Pressures on Several nations have led them to eventually consider ML as a criminal act and adapt anti-money laundering policy in their legal and regulatory systems. However, they were not totally accepted as a whole. Instead they took into consideration the specific countries understanding of predicate crimes, and anti-crime priorities. All in all, Anti-money laundering measures took priority in international anti-crime programs and political declarations. Combating money laundering would demand international collaboration between nations, financial institutions, and law enforcement bodies especially through the use of “common laws and sharing of information” (Donato Masciandaro and Umberto Filtto, 2001).

The effect of non-cooperation is catastrophic to the efforts that are being made in significantly curbing ML. Furthermore, the lack of legal controls on ML in some country’s financial system affects the global struggle. These necessitate the establishment of minimum standards for Anti-Money Laundering (AML) to effectively reduce the problem. As a result, most countries have enacted Anti-money laundering laws to implement comprehensive and dynamic measure that has significant consequences and effects (Hans Geiger and Oliver Wuensch, 2007).

Thus, Ethiopia has enacted the Anti-Money Laundering Law which is called “The Prevention and Suppression of Money Laundering and Financing of Terrorism (Proclamation No. 780/2013)”, Due diligence Directive No.01/2014 and established the Financial Intelligence Centre (FIC) as an authorized government body in fighting money laundering.

2.2 The Role of International Organizations in Anti-Money Laundering

Global efforts in combating money laundering have gained momentum after the catastrophic terrorist attack in the United States of America on 11th September, 2001. Consequently, some of the major international organizations have shown real concern in combating money laundering activities. Among those institutions the following are included in this paper.

2.2.1 The United Nations

The United Nations took the first measure against money laundering activities in the convention held at Vienna on the event to discuss on the issue of Illicit Traffic in Narcotic Drugs and Psychotropic Substances (UNODC, 1998). Right after that, in 1999, the UN issued Model Legislation on Laundering, confiscation and International Cooperation in Relation to the proceeds of Crime which gives all encompassing guidance for countries to develop AML laws. Moreover, the UN included AML measures in its two other conventions: UN Convention against Transnational Organized crime (UNTOC, 2000) and the United Convention against Corruption (UCC, 2003).

2.2.2 The Financial Action Task Force

As mentioned before, the Financial Action Task Force (FATF) has developed the Forty Recommendations on Money Laundering as instrument set as international standard to effectively implement AML measures. Regular review on FATF members are made to ensure their compliance with these 40 recommendations and suggestions are given for improvement (FATF, 2001). This is done by annual self-assessment exercises and periodic mutual evaluations of its members. The dynamic nature of ML forced FATF to closely study the new ways of money laundering and develop methods to fight against them. In minimizing the severe negative effect of ML on the international financial system, governments must strengthen their efforts to encourage global co-operation against ML. After its establishment, FATF has been involved in identifying on major AML weaknesses in member and non-members countries. Its aim is to ensure the acceptance of its laws by all financial institutions at a global level to prevent, identify and defeat ML (FATF, 2003).

The 2003 revised 40+9 FATF recommendations are used as basic requirements that countries comply with the implementation being according to their specific situations and constitutional frameworks. For instance, countries develop their own AML preventive measures which can be imposed on their financial institutions, including Training, Know Your Customer (KYC) & Customer Due Diligence (CDD), record-keeping, reporting of cash and suspicious transactions, compliance, other ML deterrent measures, measures to be taken with respect to countries that do not or insufficiently comply with the FATF Recommendations, together with regulation and supervision of reporting entities.

The most recent FATF Recommendations issued on 2012 stressed the significance of identifying the illicit proceeds of corruption, tax crimes, and proliferation financing, suggesting the way forward for future global AML activities (FATF, 2012).

2.2.3 The Basel Committee of Banking Supervision

The Basel Committee which is now called the Basel Committee on Banking Supervision (BCBS) was established by the initiation of the central governors of the G10 countries as a response to the 1973/74 downfall of the international financial market. The Committee was designed as a forum for regular cooperation between its member countries on banking supervisory matters. Its main objective aim is to enhance financial stability by improving supervisory knowhow and the quality of banking supervision globally (Paul A Schott, 2006).

The smooth and stable activities of the financial sector have become a basis for successful economic policy and global cooperation worldwide. The BCBS contributed three important papers on the issue of AML measures. These are: Core Principles for Effective Banking Supervision (1997), the Prevention of the Crime Use of the Banking System for the Purpose of Money –Laundering (1998), Core Principles Methodology (1999), and Customer Due Diligence for Banks (2001).

The focus of these papers were, significant principles which seek to ensure that banks are not used to conceal or legitimize the profits of crime; set standard for the evaluation of the adequacy of KYC requirements, suspicious transaction reporting, exchange of information with law enforcement agencies both local and international; significance of managing operational risk and improving internal controls and corporate governance were also incorporated (Basel, 2001).

2.2.4 The International Monetary Fund and the World Bank

The role played by the International Monetary Fund (IMF) on the issue of AML has significant in protecting the integrity of the international financial system by creating awareness of sound financial systems and good governance. In 2001, the IMF developed its definition on financial system abuse, financial crime, ML, and provided empirical evidence on its macroeconomic effect (IMF, 2001). Its main focus is the inclusion of comprehensive work on financial system abuse with respect to international efforts to fight ML in its various endeavors.

The World Bank (WB) calling on its development authority plays key role in providing countries with legal reform in relation to the context of national anti-corruption programs, in the design and implementation of capacity building programs, advocating of good governance and transparency in the financial sector (IMF, 2001).

The IMF together with the World Bank started to play their role in combating ML and financial crime, and protecting the international financial system since 2002. They proposed to strengthen their role in the global fight in minimizing the vulnerability of the financial system and ML through publicizing official statements, cooperating with major international AML groups, and enhancing the provision of technical assistance in the area of combating ML (IMF and WB, 2002).

A study done in relation to their major roles included: 1) publicizing the role both the IMF and WB should play by official statements and other forms of outreach; 2) recognizing the FATF 40 Recommendations as an instrument for AML related activities; 3) enhancing the focus on AML elements in the assessment of supervisory standards included in the Basel Committee principles (BCPs). 4) Cooperating regularly with the major international AML groups; 5) intensifying the provision of technical assistance programs.

2.2.5 Interpol

In the Interpol there is a dedicated unit for the fight against money laundering called Anti-Money Laundering Unit. The unit focuses on improving the successful operation between its partners in combating money laundering and assigning local liaison officers throughout the world to create effective communication; including the development of improved information exchange with the financial intelligence Centers (FICs). Furthermore, it is also involved in providing training and technical assistance in AML/CFT (Interpol <http://www.fatf-gafi.org/pages/interpol.html>).

2.2.6 The Eastern and Southern Africa Anti-Money Laundering Group

The aim of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) is fighting money laundering through the implementation of the FATF Forty Recommendations in eastern and southern Africa. The ESAAMLG expanded its efforts, after the events of September 11, 2001 US terrorist attack, to fighting the financing of terrorists. Member countries of the ESAAMLG conduct periodic self assessment process to assess the implementation of the FATF

Forty Recommendations. For instance, Ethiopia, as a member of the ESSAMLG has gone through the process in 2014 (ESSAMLG, 2015).

2.2.7 The Wolfsberg Principles

In addition to the above organizations, international banks undertook self-regulatory measures in order to develop the AML culture. This was evident, on the meeting in wolfsberg, Switzerland on October 2000, which included eleven large international banks together with Transparency International (TI). They issued a set of Global Anti- Money Laundering Guidelines for Private Banking known as the wolfsberg principles. These principles seek to give important international guidance for good business ethics in global private banking.

The aim of the Wlofsberg group is to develop financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies, client files, suspicious activities, and monitoring accounts which complies with supervisory principles (Wolfsburg Group, 2001). The Wolfsberg Group consists of the following leading international financial institutions: Banco Santander, Bank of Tokyo-Mitsubishi UFJ, Barclays, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan Chase, Société Générale and UBS.

A study conducted by Hinsterseer indicates the significance of the Wolfsberg AML Principles. He identified that of the 11 banks that signed the Wolfsberg AML Principles, most had been previously experienced ML scandal. As a result, they were committed to ensure that private banks can be part of the solution instead of problem source in the fight against money laundering. He has examined the Wolfsberg AML principles in his study. The Wolfsberg AML principles include sequences of AML activities that are voluntarily adopted by certain banks, without imposition of regulatory bodies, and they have the determination to provide a significant contribution in the combat against ML (Hinsterseer, 2001).

2.3 Empirical Studies on AML Regulations

Review of the literature discovered that money laundering is not a new phenomenon. The origins of money laundering can be traced back to as early as 1930s in organized criminal activities (Bosworth-Davies & Saltmarsh, 1994). However, after September 11, 2001, worldwide efforts to combat money laundering and the financing of terrorism have become prime importance. The

FATF has established an international standard against money laundering and terrorist financing and produced recommendations that should be adopted. The FATF measures are viewed as the leading international anti-money laundering standards that provide an enhanced, comprehensive and consistent framework for combating money laundering and terrorist financing. This framework serves as an international benchmark for national governments to implement within their respective national jurisdictions, for the detection, prevention and suppression of money laundering and the financing of terrorism.

A group of studies have taken initiatives to examine the magnitude and scope of money laundering and terrorism financing problems (Schott, 2006; Biagioli, 2008; Zdanowicz, 2009; Walker & Unger, 2009) and investigated how the money is being laundered (Unger et al., 2006; Unger, 2007). Other studies focused on the role of technology in money laundering compliance (Reuda, 2001), money laundering techniques and typology (Ping He, 2010; Irwin, 2011) and money laundering focusing on Hawalla (Bala, 2005). Generally, the findings revealed that the banking sector is the most risky sector. Irwin et al. (2011) have examined the size of money laundering and terrorism financing problems, identifying threats and trends, the techniques employed and the amount of funds involved. The findings revealed that money launderers prefer to use techniques that maintain high levels of anonymity and appear innocuous.

A review of the literature shows that there is a dearth of studies that have empirically examined the issue of the compliance measures. Despite limited studies, some studies have examined the measures on combating money laundering and terrorism financing (He, 2007; Zhu & He, 2003). Ping He (2010) examined money-laundering techniques and he discovered that the ways money is laundered include cash smuggling, making use of banks or insurance company, or making use of shell-company or front-company. He also found that criminals often prefer to launder money through non-face to face transactions. Studies in relation to money laundering and terrorist financing in Malaysia tend to focus on the development of statutes, regulations and conceptual rather than the actual implementation of these measures (Bala & Thanasegaran 2008; Araujo, 2008). The empirical studies that have examined money laundering and terrorist financing often focused on factors that underpin the pervasiveness of money laundering (Vaithilingam & Nair, 2007).

The dynamic nature of the ML has led to various regulations that are continuously changing in order to effectively address the challenges. Earlier studies on AML were mainly focused on integrity and soundness of AML systems. Reuter and Truman identified macroeconomic and microeconomic estimates as indicators of the extent of the problems of money laundering. They also found out ML methods and markets, showed the variability of AML regulations in different countries, indicated the role of AML in curbing predicate crimes involved in ML, and provided practical suggestions for enhancing the international AML era (Reuter and Truman, 2005).

Another researcher on AML measures, (John Broome, 2005), studied AML issues from different directions; including legislation, prevention, investigation, and prosecution, and provided unique responses to AML practices and policies in various jurisdictions. He specifically stressed the significance of AML compliance at each stage of an AML process.

According to Broome, in order to reach the highest levels of AML compliance in individual institutions they have to take initiative to develop self-interest in the effective functioning of AML compliance in financial sectors and high professionals are needed. He also presented the importance of different ML prevention methods, regulatory processes, and the significant impact of culture, compliance, and risk in curbing ML in all jurisdictions. He indicated that the culture within the regulatory and supervisory bodies is important as much as the culture existing in the financial institution, and emphasized that risk management strategies must be used by both public and private institutions. To ensure effective implementation of AML regulations, Broome stressed that financial institutions need to give special attention. His study encompassed all perspectives of AML programs, examined various priorities taken by different AML bodies, and showed conflicts of interest existed between AML participants, and finally stated his position on the issue of competition among them to be unnecessary and that everyone should comply with AML laws, and seek sound measures to balance regulation and compliance.

2.4 Anti Money Laundering Preventive Measures In Financial Institutions

The vulnerability of the financial sector to ML initiated several AML policies to be used as preventive measures in order to protect its integrity. Few of such methods are: the need for strict Know Your Customer (KYC) rules and Customer Due Diligence (CDD) measures. Continuous improvement on AML policies and research on basic AML tools has been conducted. Because of the continuous change in the AML and related projects, supervisors and regulators, practitioners

in related sectors, as well as other stakeholders, are obliged to assess each trend in relation to ML, and regularly check to ensure appropriateness of their decisions and implementation measures.

The emergence of new technologies such as cards and ATMs, commodity transactions, and electronic wire transfers led to new ways of ML crimes. This was noticed by Zagaris and MacDonald who came up with a long term plan in fighting against emerging ML. These methods demand strict KYC requirement, audit trails, regulation of non-bank business sectors, create awareness on complex, unique and huge transactions, monitoring of cash at the border, enhancing supervision of banks and other financial institutions, and building an effective international financial sub-regime (Zagaris and Macdonald ,(1992-1993).

Many studies showed that there are various obstacles to implement strict KYC policies due to the volume of information exchanged within banking transactions. The bank managers would like to have all kinds of information about a transaction in order to ensure the reliability his/her customer's data and that task is not easy to accomplish without offending the customers and breaching their right to privacy. That in turn may result in loss of customers due to the strict KYC policy but it is a necessary evil. Recently KYC Policies are demanded to include the identification and verification of customers, customer's source of funds, identify and monitor transactions; such as normal, abnormal, usual, unusual and suspicious. KYC Policies are not sufficient to curb ML at international level due to the vastness of international business transactions. To cover these shortcomings AML practitioners should come up with specific solutions for every situation encountered in combating fighting ML (John J Byrne, 2000; Andrew Jackson, 2000).

2.5 Banks and Money Laundering

Banks have a vital place in the economic system of a country. They are involved in project financing, payment of salaries, transfer of funds from one place to another and mobilizing of deposits. Due to these facts, the banking sector is vulnerable to financial crimes, committed by government officials through corruption, criminal groups and some individuals who seek to gain proceeds through their criminal acts and laundered illicit money through the banking system and integrate it with the economy by covering up its sources. This has initiated the global community to work together to protect the integrity of the international financial system through the

implementation of laws and regulations to monitor transactions that take place within their banks (Paul A Schott, 2006).

As compared to all financial institutions, banks could play a major role in the fight against money laundering in light of large involvement in the collection and transfer of money. Reuter and Truman suggested that “money launderers subvert the legitimate financial mechanisms and banking relationships by using them [banks] as protective covering for the movement of criminal proceeds and the financing of crime and terrorism”. It is in this sense that the “oft-stated goal of AML/CFT regimes is to protect the integrity of the financial system [particularly the banks]”.

2.6 Issues on Ethiopian AML

Combating money laundering efforts in Ethiopia are relatively recent. The first comprehensive law (Prevention and Suppression of Money Laundering and Financing of Terrorism (Proclamation No.657/2009)) was adopted in November 2009; and in March 2010, the National Bank of Ethiopia (NBE) issued a Directive named Customer Due Diligence (CDD No.046/2010) to be implemented by all banks in Ethiopia. The application of the AML program was started in 2012. Even if the activity of money laundering had been criminalized under Ethiopian law since 2004, the measure to fight money laundering in Ethiopia started following the identification of Ethiopia by the FATF for strategic AML/CFT deficiencies in June 2010 (ESSAMELG, 2015).

According to the report presented by FATF International Co-Operation Review Group (ICRG), Ethiopia has been publicized eleven times, starting from 18 February 2010 to 14 February 2014 among the countries that have strategic deficiency, inadequate legal and institutional AML/CFT arrangements by qualifying ‘public statement (black list)’. As a result, Organizations and international business entities, commercial banks, and individuals with account have become subject to repetitive screening (FATF 2012).

In response to the above deficiencies, Ethiopia has established the National Committee for Anti-Money Laundering and Combating the Financing of Terrorism consists of the following members: The Minister of Finance and Economic Development; A representative of the Prime Minister’s Office; The Minister of Justice; The governor of the National Bank of Ethiopia; The Minister of Foreign Affairs; Director General of Charities and Societies Agency; The Commissioner General of the Federal Police; The Director General of Ethiopian Revenues and Customs Authority; The Director General of the Financial Intelligence Center; The

Commissioner of the Federal Ethics and Anti-Corruption Commission; and The Minister of Ministry of Trade.

The focus of the National Committee is to comply with the international standards and being taken out of the FATF listing for strategic AML/CFT deficiencies. The first task the committee did was reviewing the AML/CFT legislation of 2009 which resulted in the issuance of Proc. No. 780/2013 and “Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014”. The Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 780/2013 repealed the Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 657/2009 and Article 684 of the Criminal Code. Consequently, the NBE Customer Due Diligence Directive No.046/2010 repealed by the FIC Directive No. 01/2014.

The authority of the law enforcement and investigative organs are stated in Proc. No. 780/2013, Articles 25-28. These provisions give a huge power for investigation of ML/TF crimes by “crime investigation authorities,” which would incorporate the Federal Police (Article 6 of Proc. No. 720/2013), the Federal Ethics and Anti-Corruption Commission (Article 6(3) of Proc. No. 433/2005), and the Revenue and Customs Authority (Article 16 of Proc. No.587/2008). In addition to this, powers are stated in laws and procedure codes, comprising in the Ethiopian Criminal Procedure Code (Proc. No.185/1961), Rules of Evidence on Anti-Corruption (Proc. No. 434/2005), Customs (Proclamations No. 622/2009), Value Added Tax (Proc.No.285/2002), Income Tax (Proc. No.286/2002), Excise Tax (Proc. No.307/2002), Turnover Tax (308/2002).

Laws related to cross-border transfer of currency and bearer negotiable instruments are set out in Proclamations Nos. 622/2009, 780/2013 and the National Bank of Ethiopia Foreign Exchange Directive No. 472/2009 and are administered by the Revenue and Customs Authority. Furthermore, the Ministry of Justice is authorized organ for prosecuting ML and its related predicate crimes, and cases of terrorism.

2.7 The Ethiopian Financial Intelligence Center

The legal provisions with respect to the establishment, powers and functions of the Financial Intelligence Center (FIC) are stated in Proclamations No 780/2013 and the Council of Ministers Regulation No. 171/2009. The FIC was established in 2009 having its own legal personality

under Article 3 of the Financial Intelligence Center Regulation No. 171/2009 which was issued under Article 21(1) of Proc. No. 657/2009.

Since its establishment in 2011, the EFIC has made significant roles which encompass: developing its functions and facilities, revising the AML/CFT laws, creating awareness among its stakeholders, initiating the process to submit a membership application to Egmont, ESSAMULG, and enhancing local coordination and cooperation through memorandum of understanding (MOUs). The FIC has signed a memorandum of understanding with the Federal Ethics and Anti Corruption Commission (FEACC), the Ethiopian Revenue and Customs Authority (ERCA), and the Federal Police which provide for the dissemination of information and requests for assistance. (Article 5 of the Council of Ministers Regulation 171/2009). Ethiopia recently joined the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in August 2013 and has a relatively significant AML/CFT legal framework.

The legal framework of Ethiopia's AML system is broad and gives improved authority and power to the Financial Intelligence Center (FIC). However, the FIC only became operational in January 2012 and only issued its first directive in January 2014.

2.8 Banks in Ethiopia

The Ethiopia economy mostly operates on cash-basis. Rapid growth in the formal financial sector has been recorded in the past six years, though it still only serves approximately 28% of the population. The total number of licensed banks are eighteen and with the number of branches more than 2015. But availability of formal financial service is still very low in Ethiopia. The International Monetary Fund's (IMF) Financial Access Survey (FAS) shows that as of end 2012 Ethiopia only had 2.95 bank branches per 100,000 adults, and .46 ATMs per 100,000 adults (ESSAMELG, 2015).

The exceptional status of the Ethiopian financial system is its isolation from the regional or international economy. Foreign currency controls are highly enforced and all financial institutions are fully owned by Ethiopians. Money transfer from Ethiopia to abroad is illegal, except for a few transactions, and non-resident foreigners are not allowed to have accounts in Ethiopian banks. Money can be transferred only using the bank's SWIFT-system by the Ethiopian Diaspora and resident foreigners with account. Therefore, money transfer mainly involves to inflow of funds from the Ethiopians who reside abroad to their relatives in Ethiopia.

2.9 Profile of Dashen and Berhan Banks

Dashen Bank S.c. was established on September 20, 1995 according to the commercial code of Ethiopia, 1960, and the licensing and supervision of banking business Proclamation No. 84/1994. It is one of the biggest private banks in Ethiopia. It operates through a network of 196 Branches, nine dedicated Forex Bureaus, 220 ATMs and 958 plus Point-of-Sale (POS) terminals spread across the length and breadth of the nation. It has established correspondent banking relationship with 464 banks covering 71 countries and 175 cities across the world.

Berhan International Bank S.C is one of the youngest private banks. The Bank was registered and licensed by the National Bank of Ethiopia on 27 June 2009 with an authorized capital of 300,000,000 and subscribed capital of Birr 154,736,000 divided into shares of 1000 Birr par value each.

2.10 Expectations of Ethiopian Regulatory Bodies from Commercial Banks

In addressing the question on what roles private commercial banks are expected to play in combating money-laundering, questionnaire respondents from Financial Intelligence Center (FIC) referenced to a document- the Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 780/2013 and the FIC Directive “Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014”. According to the Directorate, Financial Transaction and Examination, (FIC), the Financial Action Task Force placed a responsibility on all jurisdictions to help combat money laundering. These, He said were contained in the FATF 40+9 recommendations which imposed some direct responsibilities on Financial Institutions and others on countries, most of which were to be implemented through financial institutions. In line with the FATF 40+9 recommendations, the Financial Intelligence Center (FIC), in January 2014 came up with the directives spelling out the requirements for the compliance of banks and other financial institutions in the fight against money laundering which included the following:

2.10.1 Internal Policies, Controls, and Procedures

Commercial banks are required by FATF and FIC to have robust internal control measures to combat money laundering and financing of terrorism and to ensure the safety and soundness of the banking system. The study revealed that the control measures consisted of appointment of

AMLRO, KYC, and CDD, training of staff, recording and keeping of data and reporting of suspicious transactions.

2.10.2 Duty to Appoint a Compliance Officer

FIC Directive No.01/2014 Article 4(e) requires every financial institution to appoint an independent designated compliance officer in accordance with Article No. 11(3) of Proclamation No.780/2013. Such an officer shall receive suspicious or unusual transaction reports from persons processing transactions for the financial institution.

2.10.3 Cooperation with Competent Authorities

The Directives also require financial institutions to cooperate with all the requests made pursuant to the Proclamation and subsisting laws and directives by providing relevant information to the FIC and other competent authorities in the fight against money laundering.

2.10.4 Duty to Identify Proceeds of Crimes

According to Article 38 of the Directives, combating money laundering includes reporting all criminal activities which generate money and is transmitted through the financial system. Financial Institutions are required to report all predicate offenses such as terrorism, terrorist financing, counterfeiting, fraud, corruption and bribery, illicit arm trafficking, sexual exploitation, human trafficking, murder, kidnapping, smuggling, robbery, forgery, piracy, among others.

2.10.5 Duty to Perform Customer Due Diligence (CDD)

According to Article 9(1) of Proclamation No. 780/2013 and Article 26 (1-3) of the FIC Directives Number 01/2014, Financial institutions are required to perform customer due diligence. This entails the identification and verification of clients and beneficiaries and also the continuous monitoring the customers' business with the financial institution.

2.10.6 Reporting Of Suspicious Transactions (STRs)

Article 38 and 39 of the FIC Directive No 01/2014 and Article 17 of AML/CFT Proclamation No.780/2013 impose an obligation on financial institutions to report all suspicious transactions to

the Financial Intelligence centre within 24hrs after the knowledge of the ground for the suspicion.

2.10.7 Reporting Of Cash Transactions (CTRs)

Financial Institutions are required to file a report of cash transactions within Ethiopia with a threshold of Br. 300,000 and above (or its foreign currency equivalent) or amounts as may be determined by the FIC from time to time.

2.10.8 Foreign Branches and Subsidiaries

The Directives require financial institutions to ensure that their foreign branches and subsidiaries or parent companies follow AML/CFT procedures comply with the provisions of the FIC Directives.

2.10.9 AML Employee Awareness/ Training Program

The Directives require that financial institutions design a comprehensive employee awareness and training program to make employees fully aware of their obligations and also to build their capacity with relevant skills required for the effective discharge of their AML/CFT tasks.

2.10.10 Protection of Staff who Report Violations

The Directives require financial institutions to formally order their employees to co-operate with the Regulators and law enforcement agencies. They are also required to make it possible for employees to report any non-compliant acts of the institution's AML/ CFT compliance program to the AML/CFT Reporting Officer.

2.10.11 Formal Board Approval of the AML/CFT Compliance Manual

The compliance manual of every financial institution requires the approval of the Board of Directors who must satisfy themselves of the adequacy of the compliance policy guidelines as presented to them by the management of the financial institution.

2.10.12 Minimum Requirements for Wire Transfers

According to the Directives, for all wire transfers, the ordering financial institutions should obtain and maintain information associated with the originator of the wire transfer including, the

name of the originator, the originator's account number or a unique reference number if no account number exists; and the originator's address which can be substituted with identity number, customer identification number or date and place of birth.

2.11 Challenges of AML Implementation

In the implementation of AML measures there are several challenges. Among those here are the major ones: population size, economic development of the country, culture, geographical location, technological advancement, compliance costs and political stability (Verdugo Yepes, 2011).

Additional factors that could strongly affect the effectiveness of banks' AML/CFT measures are: the strength and complexity of the regulatory and supervisory regime in the country; the extent of corruption and the capacity to combat corruption; or the level of financial exclusion (FATF, 2012).

Furthermore, FATF (2013) set up the following prerequisites for effective AML/CTF measures: 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 absence of such structural elements can highly affect the effectiveness of AML/CFT framework.

Dr. Chaikin stated that the major responsibility set by the FATF is that all financial institutions are required to know their customers (KYC) in order to preventing themselves from unknowingly helping in the laundering of dirty money. The other requirement that needs to be considered is classification of customers based on the risk they bring to the financial institutions, which will enhance Customer Due Diligence measures applied to higher risk customers, such as PEPs (Chaikin, 2014).

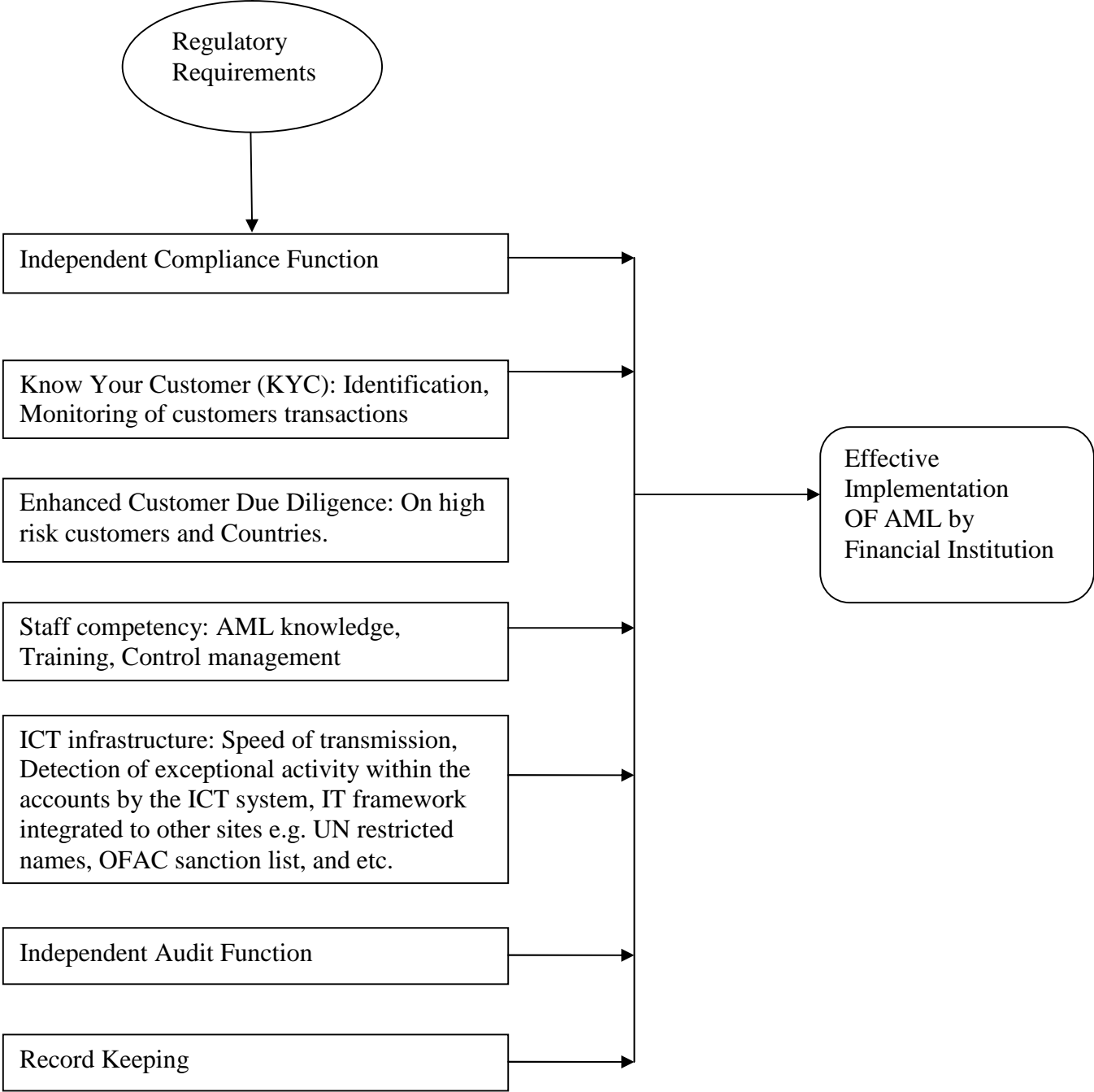
Tue'may stated that the AML/CFT initiatives in Ethiopia are faced with key limitations and challenges to their effective and efficient implementation, including a lack of a national AML/CFT policy or strategy (revised FATF Recommendations nos. 1 and 2); comprehensive legislation, regulatory frameworks, and detailed regulations; established formal and institutionalized national interagency cooperation and coordination (revised FATF

Recommendations no. 2); all-inclusive reporting practices of STRs and CTRs from all legally required entities (revised FATF Recommendations no. 20); detailed standard operating procedures on prioritized business areas; risk-based compliance supervision (revised FATF Recommendations nos. 26–28); an institutionalized AML/CFT training scheme; and enhanced awareness of the money laundering and terrorist financing threats among policymakers and practitioners.(Tue'may, 2013)

2.12 Conceptual Framework

The conceptual framework depicted in Figure.1 illustrates concepts from various literatures to establish evidence to support the need for the research question. In this study the conceptual framework tries to simplify the concepts in the study by presenting the key issues expected to be covered. Therefore, in this context, the requirements set by the regulatory bodies, the role of commercial banks in implementing AML and their effectiveness are identified and analyzed. The whole analysis is expected to bring out the weakness, strengths and challenges of the targeted Banks in implementing the AML rules and regulations.

Figure 1. Conceptual Framework



Source: Different Literature Reviews (1998-2016)

CHAPTER THREE

METHODOLOGY

In this chapter the researcher presents the methods that are used in collecting relevant data for the purpose of achieving the objectives of the study.

3.1 Research Design

The main concern of this research is to describe the status of Ethiopian financial regulatory bodies and commercial banks in curbing money laundering. Case study approach is adopted which only focuses on Dashen and Berhan Banks. According to Sharma and Gupta (2008), to conduct a case study means to investigate something which has significance beyond its boundaries. Case studies involve a study of an individual or only a few individuals and produces very detail information. In spite of its being non-experimental, it well informs theory, research, & practice, serving to fulfill the first goal of science - identifying causal issues that can be experimentally assessed.

3.2 Research Approach

The research approach was mainly qualitative and quantitative (mixed research approach) method and data was gathered through the use of questionnaires and interviews based on structured or semi-structured questions. Many scholars have brought forward the idea of combining qualitative and quantitative approaches (e.g. Bryman, 2009 and Creswell, 2009). The objective of combining the two approaches is to preserve the strengths and reduce the weaknesses in both approaches. The preferred term for combining these approaches is “mixed methods” (Bryman, 2009).

3.3 Sampling Techniques

The researcher used non-probability purposive sampling technique for this study. Purposive sampling is a non-probability sampling method and it occurs when “*elements selected for the sample are chosen by the judgment of the researcher*”. Researchers often believe that they can obtain a representative sample by using a sound judgment, which will result in saving time and money”. (Black, 2010: 225). The researcher selected the sample based on who the researcher thinks would be appropriate for the study. According to Kumar (2005), the primary consideration

in purposive sampling is the judgment of the researcher as to who can provide the best information to achieve the objectives of the study. The researcher only goes to those people who in his/her own opinion are likely to have the required information and be willing to share it. It is the right of the researcher to choose the research samples. As a result there can be an element of bias in the selection (Murphy et al., 2008) which should be carefully handled so that subjective opinions would not affect objective enquiry and valid findings.

The criteria used to select the interviewees are their expertise and authority on the subject, the criteria for questionnaire respondents is their seniority in the field of internal Audit which is closely related to the risk and compliance office. In regard to a number of respondents, there were a total of 58 populations which consists 45 Senior Auditors, 6 Senior Compliance Officers and 7 Senior Risk Officers. From this total population, sample of 50 Officers were selected as respondents. From this sample 43 officers responded to the questionnaire while 7 did not, i.e. 86% of the distributed questionnaires were filled and returned.

Table3.1 Summary of sampling population

Unit of Analysis (Population group)	Dashen Bank S.c.	Berhan Int. Bank S.c.	Sampling Size per Bank	Sampling Methods
Senior Auditors	27	18	19/18	Purposive
Senior Risk Officers	4	3	4/3	Purposive
Senior Compliance Officers	3	3	3/3	Purposive

Source: Dashen Bank S.c., Berhan International Bank S.c.,(2016)

Furthermore, based on the judgment of the researcher, the Director of the Risk and Compliance Department of Dashen Bank S.C., and the Director of the Risk and Compliance Department of Berhan International Bank S.C, and the Director of the Financial Intelligence Centre were the targeted respondents for the questionnaires. The General Director of FIC nominated the Head, Information Systems and Financial Security Directorate and Head Senior Expert, Financial Transaction and Examination Directorate, to respond to the enquiries. Based on their responses, all these resource persons were also interviewed to give clarification on some of their responses.

As shown in Table 3.2, all the questionnaire respondents have a minimum of a Master’s degree academic qualification. In addition, each of them has a minimum of 10 years working experience

in banking industry and other financial sectors, making their contributions authoritative enough to make their contributions convincing for this study.

Table.3.2 Profile of the Interviewees

Respondent	Minimum Academic qualification	Banking Experience
Director, Risk and Compliance Management Berhan International Bank S.c.	Master's Degree + Professional	Over 10 years
Director, Risk and Compliance Management Department, Dashen Bank S.c.	Master's Degree + Professional	Over 10 years
Directorate, Information Systems and Financial Security Directorate, FIC	Master's Degree + Professional	Over 10 years
Head Senior Expert, Financial Transaction and Examination Directorate , FIC	Master's Degree + Professional	Over 10 years

Source: Dasehn Bank S.c., Berhan International Bank S.c., And FIC.2016.

3.4 Types and Tools of Data Collection

The researcher used mainly qualitative and some quantitative data collection and analysis method. To conduct the research, both primary and secondary data were used. The primary data was collected through structured or semi-structured Interview questions and Questionnaires were conducted in institutions such as: the Financial Intelligence Center, Dashen and Berhan Banks. Interview questions and Questionnaires were sought to assess the role and effectiveness of the two targeted Banks in combating money laundering.

Each of the two questionnaires had a portion for bio-data. The questionnaires for the Financial Intelligence Centre are further divided into three sections. The first part of the questionnaire sought to inquire on FIC provisions on money laundering. The second part of the questionnaire addresses the effects of money laundering and the need for banks to deal with the issue whereas the third part of the questionnaire deals with the roles the FIC expected commercial Banks to play in dealing with money laundering and what mechanisms they have in place to monitor these banks.

The questionnaire for both Banks were also further divided into six parts which in all, seek to cover areas such as general anti-money laundering policies, practices and procedures, risk

assessment and KYC procedures, reportable transactions, prevention and detection of illegally obtained funds, transaction monitoring and challenges.

The research questionnaires were prepared only in English since all respondents were qualified; holding senior positions and the official languages of banks is English.

The researcher used the Wolfsberg standard Questionnaire to assess the role of financial institutions and their effectiveness in implementing AML. It also validates the questions and the reliability of data collected through them to have a quality standard. The Wolfsberg standard questionnaire is used internationally among all correspondent banks to ensure the availability of AML practice which help them to continue their cooperation in business and the fight against ML. What the banks practically do is send and fill out the Wolfsberg standard questionnaire sign and send it back to each other.

The Wolfsberg questionnaire, as mentioned in the literature part of the thesis, is a standard questionnaire which is used globally to assess financial services industry standards, and related products, for Know Your Customer, Anti-Money Laundering and Counter Terrorist Financing policies, client files, suspicious activities, and monitoring accounts which complies with supervisory principles. The wolfsberg principles are also incorporated in Ethiopian government Proclamation No.780/2013 on the Prevention and Suppression of Money Laundering and Financing of Terrorism and the FIC Directive No.01/2014 on Customer Due Diligence which are tailored out of the FATF 40+9 recommendations which are used to evaluate effectiveness of financial institutions in implementing AML.

Ethiopian Laws on money laundering which include various proclamations and regulations are among the sources of the study. The secondary sources of data collection included articles, FATF reports and Recommendations, Journals, bank policies and procedures, Evaluation reports of ESSAMELG, Research papers, Websites, Directives and other relevant documents. These were relevant sources of information which gave the researcher a better understanding of the subject area and explained the research problems as well as confirmed the responses obtained from the questionnaire administration and interview sessions.

3.5 Data Collection

The data collection period lasted for a period of three weeks. The data was collected by the researcher himself. Visits and interviews were conducted to the various offices of the institutions mentioned. The gathering of information from the respondents was mainly through face to face interviews and the administration of semi-structured questionnaires. In addition, information was gathered from literature to augment the data collected to address some objectives.

3.6 Methods of data analysis techniques

The data collected were mainly qualitative and quantitative data. The researcher conducted content analysis for the interview part of the research questions and tabulation and simple statistics computation for data collected from the two selected banks through questionnaires, 43 respondents have been analyzed using SPSS (version 20) by applying descriptive statistics (frequency and percentage).

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter presents the results and the findings from the questionnaire administration and interviews as well as literature reviews. It also presents a detailed discussion on the findings of the study, thus setting the background for recommendations and conclusions.

2.13 Data Analysis and Presentation

Two types of Questionnaires were designed for Ethiopian Financial Intelligence Centre (FIC), Berhan International Bank (BrIB) and Dashen Bank S.C. (DB). These were sent to the experts on AML of these Institutions. 50 questionnaires were distributed and 43 were collected by the researcher.

2.14 Data Result Interpretation

Survey questionnaires collected from 43 respondents have been summarized in tabulation form.

2.14.1 Respondent profile

It is necessary to analyze some demographic and job characteristics of the respondents to see the extent to which samples were representative of the population from which they were drawn. Demographically sex, age, educational qualification, and job position characteristics of respondents were considered. In terms of sex, Table 4.1 shows that only 14% of the respondents were females while the male respondents were 86%. Though the ratio is not proportional both category of the respondents were participated.

Table 4.1 Sex category of respondents

Gender	Frequency	Percentage
Female	6	14
Male	37	86
Total	43	100

Own Survey, 2016

Table 4.2 Age category of respondents

Range of Age	Frequency	Percentage
18-25	-	-
26-35	34	80
36-45	8	18
46-55	1	2
Total	43	100

Own Survey, 2016

Table 4.2 illustrates 80% of the respondents were between the ages of 26 to 35; 18% of them are between 36 to 45; and the remaining 2% were above 45.

The other influentially relevant demographic characteristics here is education that will help respondents have a better understanding of the questions asked and the issue of AML.

Table 4.3 Educational level of respondents

Education level	Frequency	Percentage
Degree	39	91
Masters	4	9
Total	43	100

Own Survey, 2016

Table 4.3 illustrates 91% of the respondents were first degree holders while the rest 9% were masters holders.

Table 4.4 Job position of respondents

Education level	Frequency	Percentage
Senior Auditors	27	63
Senior Compliance Officers	6	14
Senior Risk Officers	10	23
Total	43	100

Own Survey, 2016

Table 4.4 shows the distribution of respondents according to the position they hold in the job. It shows that majorities (63%) of the respondents were Senior Auditors; 23% were Senior Risk Officers, and 14% were Senior Compliance Officers. They represent the positions and are purposely selected for their rich experience in the banking sector as well as having exposure to the research topic.

2.14.2 Effective AML Implementation Requirements

There are several requirements set out by regulatory bodies for banks to follow in order to reach successful implementation process of AML. The tables and their interpretation show the selected Banks efforts to comply and the level of their effectiveness at the time of the research.

Table 4.5 Compliance function

Indicators	Frequency	YES	NO
AML compliance program	43	100%	-
Designated compliance officer	43	100%	-
AML Policies and Procedures	43	100%	-

From table 4.5, the indicator (there are AML compliance program , adequate policies and procedures and designated compliance officers that promote for effective implementation of AML, was recorded as ‘YES’ by the respondents. This can be supported in percentile terms (100%) that means both Banks have fulfilled the above three requirements for effective AML implementation.

Table 4.6 Staff Competency

Indicators	Frequency	YES	NO
AML training to employees	43	100%	-
Retaining training records	43	100%	-
Communicating New Laws	43	100%	-

From table 4.6, the indicator the Banks have conducted AML training for their staff and keep the training records and they communicate their staff whenever there are new AML laws that

promote for effective implementation of AML, was recorded as ‘YES’ by the respondents. This can be supported in percentile terms (100%) that means both Banks have fulfilled the above three requirements for effective AML implementation.

Table 4.7 ICT Infrastructure

Indicators	Frequency	YES	NO
STR reporting	43	100%	-
CTR reporting	43	100%	-
Screening of Suspicious transactions	43	-	100%
Screening of structured cash transactions	43	-	100%

From table 4.7, the indicator, the Banks have conducted suspicious transactions reporting and cash transaction reporting for effective implementation of AML, was recorded as ‘YES’ by all the respondents. But all both Banks do not have the ICT infrastructure for making proper screening of customers and transactions as it is shown on the above table.

Table 4.8 KYC and Enhanced Due Diligence

Indicators	Frequency	YES	NO
Identification of new customers and KYC information	41	95%	5%
Collection of information customers activities	43	-	100%
Identification of high risk customers	43	-	100%
Identification of PEPs and NGOs	43	-	100%
Enhanced due diligence	39	9%	91%
Risk based assessment of customers	39	9%	91%
Risk based assessment of transactions	40	7%	93%

The major key performance indicators of AML implementation which are considered critical by the international standard setter (FATF) and the Ethiopian regulatory bodies are KYC and Enhanced Due Diligence. Table 4.8; clearly indicate that both banks have failed to implement these fundamental requirements. Under this table the indicator, Identification of new customers and KYC information, this shows that most respondents (95%) answered ‘YES’ for this particular question. For the questions on Collection of information customers activities,

Identification of high risk customers, Identification of PEPs and NGOs, Enhanced due diligence, Risk based assessment of customers, Risk based assessment of transactions, which is more than 91% of the respondents answered 'NO'. This shows that both Banks were not successful on implementation of the decisive factors of AML.

2.15 Presentation and Interpretation of Interview Results

From the questionnaire responses and interviews held with the Directors of Risk and Compliance Department of both Banks, as well as observations made during the research, the following were procedures both Banks had in place as their contribution towards implementing AML:

2.15.1 Appointment of Compliance Officer

Both Banks have compliance Divisions under the Risk and Compliance Department. There was no trained officer directly responsible for the Anti-money laundering role in both Banks. Among other things the compliance offices perform the implementation of AML regulations as required by the regulatory bodies. The observation made during the research showed that each Bank has three personnel who are assigned to perform compliance tasks.

2.15.2 Co-Operation with Regulatory Bodies

It is observed that both Banks are highly committed to cooperate with the Financial Intelligence Centre, National Bank of Ethiopia, and other competent authorities. In response to the several directives from NBE and other competent authorities concerning the freezing of suspicious accounts the Banks' records revealed that they have been trying their best to comply. In addition to that they have also complied with the requests from The NBE and FIC for account opening documentations and statement of accounts for certain accounts that are under investigation. It was observed that, occasionally the FIC invited some tellers of the Bank to assist in an ongoing investigation. Despite the difficulty they may encounter, both Banks showed full cooperation to the competent authorities to satisfy their request.

2.15.3 Illegal Activities Report

The Directors of both banks said that they are required to provide a monthly fraud report to NBE. The report, among others, is supposed to capture all manner of fraud that has occurred during the month in question. They indicated that several causes for having such frauds. Some of them are:

insider job, internal weakness, system breakdown, and breach of procedures, etc which is all must be reported. They said based on the contents of the report, the NBE takes further action to clamp down on illegal activities and to avoid any recurrence. It was observed that both Banks had not defaulted in the submission of monthly fraud report to NBE. The Risk and Compliance Management Department of both Banks produced a file that contained copies of fraud reports sent to NBE in the past. What the research could not ascertain was whether the contents of the fraud reports sighted were a true reflection of actual fraud events during the reporting months. The Directors of both banks also said NBE also requires all Banks to file a report on customers who issue cheques where there is insufficient fund in their accounts. This was verified from the NBE Directive No.SBB/31/ 2002.

2.15.4 Customer Due Diligence (CDD)

According to the Directors of both banks, their customer-due-diligence procedures start from the point of account-opening. The Banks' customer identification process lies in the area of customer ID verification, confirmation of customer's place of residence or business operating premises, assignment of a dedicated Customer Service Officers who is to monitor the customer's activities, provide an advice to the customer and serve as a liaison officer between the customer and the Bank in attending to the customer's peculiar needs. It was observed that both Banks' have no mechanism for verifying the authenticity of ID cards submitted by customers for account opening and business transaction purposes. In addition, when a customer's location details are not taken, Customer Service Officers assigned to the customer is expected to pay a visit to the customer's given address for confirmation. The Directors further indicated that the Customer Service Officers is also expected by the bank's policy to monitor the customer's transactions on an ongoing basis so as to identify any deviations from the customer's normal transaction cycle.

2.15.5 Filing and Reporting of Suspicious Transactions (STRs)

The AMLCFT Proclamation No.780/2013 under Article 2 sub 23 defines suspicious transactions to include transaction levels of customers which is inconsistent with the expected level of transactions given the customer's declared business, or transaction level which is inconsistent with past transaction levels. Accordingly Both Banks have reported 25 to 30 suspicious transactions to FIC so far. However, it is observed that these number of suspicious transaction reported are minimal compared to their high volume of transactions. According to the Director at

Berhan Bank, the reason for this are lack of understanding in the part of front line staff, fear of losing confidentiality and loss of customers and their deposits.

2.15.6 Reporting Cash Transaction (CTRs)

Although FIC requires all Banks to submit a weekly report of all cash transactions of Br.300, 000 and above or its foreign currency equivalent, it was observed from the study that both Banks do not have the mechanism to organize and send all cash transactions that fit the requirements. Since the report is compiled manually at branch level some transactions may not be reported to FIC. Dashen bank sends an average number of 1,500 cash transactions while Berhan Bank sends an average number of 350 cash transactions per week to FIC.

2.15.7 Internal Controls, Compliance and Audit

It was observed that Both Banks have a compliance policy manual. The manual spells out the Banks' anti-money laundering policies and procedures to guide their operations in the fight against money-laundering and combating the financing of terrorism. This manual is updated on annual basis to include for all observed inadequacies and new developments in the money-laundering area. There is a full-fledged Internal Audit department responsible for carrying out audit assignments on branches and Head office departments on a quarterly basis and render a report to the Board Audit Committee in each Bank respectively. During their audit of the compliance departments, the Internal Audit departments are supposed to do an assessment of the compliance manual to ensure that it is up to date and meets the best standards of anti-money laundering.

2.15.8 Legal Person Verification

It was observed from the study that both Banks do not have a mechanism for verifying the legality of the status of both natural and artificial persons. However they make sure to obtain acceptable ID cards for the purpose of verifying the identity of customers. These are passports, drivers' licenses and Kebele ID cards. With regards to artificial persons like companies and enterprises, both Banks confirm the genuineness of legal documents submitted by these entities for account opening purposes from the concerned Authority. In addition, both Banks perform customer due diligence on the signatories to these accounts as though they were individual account holders.

2.15.9 Dealings with Shell Banks

As part of their AML policies sighted, both Banks do not deal with Shell Banks. This is in fulfillment of the FATF's directive for Banks not to deal with shell banks. The policy of both Banks requires that only to deal with their local and correspondent banks that have a physical presence. Currently, all the local Banks are not shell banks and Berhan Bank has two (2) correspondent banks (Commerze Bank and Detsch Bank) whereas Dashen Bank have four hundred seventy one (471) known international correspondent banks at the time of the study.

2.15.10 Attention to High Risk Countries

Both Banks' Compliance policy sighted requires staff to perform thorough due diligence on transactions relating to counter parties in high risk countries. Currently, there are 11 countries that are categorized as high risk jurisdiction countries by the Financial Action Task Force. Those countries are: Afghanistan, Bosnia & Herzegovina, Democratic People's Republic of Korea, Guyana, Iran, Iraq, Lao People's Democratic Republic, Syria, Uganda, Vanuatu, and Yemen (FATF, 2016). The Directors of both Banks confirmed that they do not have any kind of correspondent banking relationship with banks found within those high risk jurisdiction countries.

2.15.11 Foreign Branches and Subsidiaries

Both banks do not have foreign subsidiaries. According to the Directors, they have local branches within the country and the compliance procedures of both Banks stated that it is mandatory for all branches to have anti-money laundering manual and comply with the requirements. The Directors of both Banks said, they had not been subjected to any AML investigation.

2.15.12 AML Employees Awareness/ Training Program

From the two Banks' AML policy, it was required that the Banks call upon AML training on a quarterly basis. Every staff is required to be trained on emerging trends in anti-money laundering and a training report should be submitted to the FIC. Copies of training attendance records and training slides were sighted for 2013, 2014 but none for 2015. It was observed that both Banks have a training policy to hold an induction session for all newly recruited employees and the

training program for AML is also incorporated. During their induction program, these new employees are given some training in money-laundering so that they serve as anti-money laundering officers in their various branches. Records were sighted to testify the adherence to these policies at both Banks.

2.15.13 Monitoring Of Employee Accounts

To comply with this requirement, the Directors of both Banks said their departments perform a weekly review of staff accounts to ascertain the volume of transactions on each staff account. They stated that the monitoring is also meant to identify staff who issue insufficient fund cheques on their accounts, ascertain staff whose account activity is inconsistent with their salaries, and to identify fraudulent or suspicious movements of funds to and from their accounts. They however produced no such investigation report as they claimed there had been none so far. In addition to this, the compliance manual of both Banks do not state the threshold limits that might be transacted by employees and make them subject to monitoring.

2.15.14 Protection of Staff Who Report Violations

The respondents mentioned that during AML training sessions, they encourage their staff to report suspicious transactions to their Departments. Both Banks' policies however do not permit staff to deal with external parties on behalf of their Banks. As such, all regulatory enquiries that come in connection with money laundering go through the Risk and Compliance Management Department of each bank. According to them, all reports of violations in relation to money laundering obtained from staff are treated with utmost confidentiality, the rationale being to encourage staff to make such reports as required by the law without victimization.

2.15.15 Additional Areas of AML/CFT Risks

No AML contingency plan was sighted or availed by both Banks Compliance offices during the research, suggesting that both Banks have not done any half-yearly review of FIC Directives on AML to assess areas of deficiency not captured by the directives. No additional risk mitigations have been done and reported to the Financial Intelligence Centre.

2.15.16 Testing For the Adequacy of the AML/CFT Compliance Program

A report on the adequacy of the compliance processes of the Bank reporting to FIC on an annual basis as required by FIC's directives were not sighted. It was observed that Both Banks have an approved functional Compliance Manual in place. The Directors, however noted that an internal audit review had never been carried out on the compliance manual of their Banks although there is a policy commitment to subject the Bank's compliance policies to periodic scrutiny by the Internal Audit team of both Banks.

2.15.17 Report of Politically Exposed Persons (PEPs)

Both Banks did not report for transactions on Politically Exposed Persons as none was sighted during the study contrary to the FIC and the Banks' own compliance manual.

2.15.18 Wire Transfers

Both Banks, like many other banks globally, do wire transfers through the "Society for Worldwide Interbank Financial Telecommunication" (SWIFT) platform. According to the Compliance Department of Berhan International Bank, this platform allows for the real time transfer of funds from bank to bank worldwide. The research revealed that there are standard information requirements in making such money transfers. These include details of Ordering Bank, customer, Beneficiary Bank, Beneficiary Customer, purpose of transfer and Correspondent Bank details in the case of foreign transfers involving intermediary Bank. All the SWIFT transfer supporting vouchers sighted during the study conformed to the requirement of National Bank of Ethiopia. In addition to this, the Director said that Berhan Bank has a policy to perform KYC checks on customers for foreign inflows of US\$15,000 and above where an Inward Remittance Questionnaire is completed by the account officer for the beneficiary account. Copies of the questionnaire sighted indicated among others the beneficiary customer's details, the origin of the funds, purpose of the funds, outstanding KYC documentations (if any) etc. When completed, this questionnaire is forwarded to the Risk and Compliance Management Department for verification and upon satisfactory remarks, funds are credited to the customer's account by the International Banking Department (IBD).

2.15.19 Record Keeping

The Directors mentioned that their departments are in charge of the Banks' archiving function and as part of their Banks' policy supporting documents for transactions are kept for ten years after the consummation of a transaction, or with respect to account opening documents, ten years after the termination of business relationship. They said management deemed it necessary raise the minimum standard above the regulatory requirement because the Bank may even need old documents to support a legal pursuit of bad loans. They availed a copy of the policy to substantiate the claim and also produced a schedule showing the dates of movement of documents to the archives.

2.15.20 Challenges of the Targeted Banks in Combating Money Laundering

Despite the efforts made by both Banks in combating money laundering, the implementation is not free of obstacles that inhibit the attainment of the set objectives of these processes. The challenges cited by both Directors and those observed included inadequacy of trained manpower, technological deficiencies, inadequacy/unavailability of co-operation from stakeholders, ambiguity of some regulatory requirements, among others as shown below:

2.15.21 Information Requests from Competent Authorities

According to the Directors, as part of co-operating with the competent authorities, both Banks receives several requests for information from FIC, NBE, ERCA, and FEACC. However, the notice periods given by these authorities for the deliverables are very short. Meeting the set deadline becomes even more difficult when the nature of the request dates back to a period beyond 1 year. The reason is that usually the requests are several and complex in nature i.e. the banks are required to provide more than a year old copies of vouchers and cheques drawn on those accounts. Consequently, this require Customer Service officers to first identify each of the transactions, trace the location, retrieve them one by one, run photocopies for each voucher and re-file the voucher. Where the request for information is on a high transaction account and/or there are multiple requests at a time, they usually constrained to provide the information at the expense of other important day today tasks. Sometimes the information requested may not unavailable. These challenges invariably, limit the provision of support for the authorities.

2.15.22 Lack of Mechanisms for Identifying Illegal Activities

According to the Directors, there are no standard guidelines for the reporting of illegal activities such as human trafficking, murder, kidnapping and smuggling. Furthermore, most of these activities are hard to detect during the Banks' normal course of operations. The best the Banks can do is to suspect that a deposit or transfer into an account is from an illicit source which calls for the filing of a Suspicious Transaction Report. Consequently, such activities have never been detected in the course of business and reported to FIC.

2.15.23 Detection of Counterfeit Currency

The study showed that one of the measures in the detection of counterfeit currency, both Banks, like all other Banks use note counting machines that have counterfeit currency detection features. However, some counterfeit currencies sometimes passed undetected for many reasons such as: defective machines, staff inefficiencies, and knowledge gap on the use of the machines. The Director of Berhan bank said that in 2015, the Bank purchased a new set of counting machines and gave training to the appropriate staff on the use of these counting machines. But, even after five months of working with machines the bank still suffers penalties for non detection of counterfeit notes. In addition to the above mentioned causes, employee turnover and until the new staff get used to the operation of the machine.

2.15.24 Anti-Money Laundering Software

Lack of Anti money laundering software is one of the challenges due to its expensiveness for the both Banks to acquire. This software could have enable them to efficiently monitor transaction thresholds, screen blacklisted names in the banks' database, monitor activities on high risk categories of countries and accounts give an alert for any other relevant parameter in an automated manner rather than the manual approach which is susceptible to human errors, manual inefficiencies, minimal or zero audit trails. As a result, all anti-money laundering activities are carried out manually. This tends to affect completeness and efficiency making reports generated unreliable.

2.15.25 Verifying Identity Documents

Both Banks use a core banking system that allows them to store data of their customers. However, the system does not have verification of identity features. According to the respondents they have no way of verifying the authenticity of the ID Cards presented by the customers using an IT system since the Government agencies do not have reliable software that allows easy verification of documents. Therefore Verifications are done manually by directly contacting the issuing authorities such as Kebeles and Immigration. This is practically impossible for these government authorities to be able to provide detail information on each customer of all these banks. Thus, the Banks face potential risk of letting individuals with wrong identities to maintain accounts.

2.15.26 Cash Transactions Reporting Challenges

It is observed that the core banking system of both Banks does not have a feature that enables to extract cash transactions within the threshold limit i.e. 300,000 and above or its equivalent to foreign currency. That means the Banks are required to manually input details of these transactions on a daily basis and report it to the Financial Intelligence Centre. As a result some such cash transactions are omitted from the reports.

2.15.27 Lack of Trained Manpower

Although Both Banks run a quarterly anti-money laundering training program for their employees, it was observed that the staff of the Compliance Management Department of the two Banks had not taken any specialized courses in anti-money laundering such as the Certified Anti-money laundering officer. As a result, they were not well equipped in the knowledge of all areas of money laundering.

2.15.28 Challenges in Monitoring PEPs and NGOs

It was observed that both Banks did not have a mechanism for monitoring the accounts of PEPs, and NGOs. This was confirmed by the experts of both Banks. Furthermore, the Directors complained that their Banks have no checking system for ascertaining whether customers were relatives to PEPs. This means that some PEPs accounts are opened and maintained without regards to the Banks' PEPs policy which they said also requires the Managing Director's

approval prior to the opening of the account. Consequently, transactions on these accounts are not reported as required by the FIC directives.

In addition to the above challenges the Banks faced the FIC Senior Expert also recognizes lack of national ID, conflict of interest from the Banks side (The banks' policy on deposit mobilization which compel the bank managers to accept all kinds of customers without performing CDD and KYC), and difficulty in identifying similar names due to lack well organized database. He also admitted that some of the challenges such as identification of PEPs and locally designated terrorists were initiated because of the weakness of the FIC itself by not providing them with the name list of these persons and organizations to be used as a reference.

2.16 Expectations of Regulatory Bodies from Commercial Banks

In addressing the question on what roles private commercial banks are expected to play in combating money-laundering, questionnaire respondents from Financial Intelligence Center (FIC) referenced to a document- the Prevention and Suppression of Money Laundering and Financing of Terrorism Proclamation No. 780/2013 and the FIC Directive "Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014". According to the Directorate, Financial Transaction and Examination, (FIC), the Financial Action Task Force placed a responsibility on all jurisdictions to help combat money laundering. These, He said were contained in the FATF 40+9 recommendations which imposed some direct responsibilities on Financial Institutions and others on countries, most of which were to be implemented through financial institutions. In line with the FATF 40+9 recommendations, the Financial Intelligence Center (FIC), in January 2014 came up with the directives spelling out the requirements for the compliance of banks and other financial institutions in the fight against money laundering which included the following:

2.16.1 Internal Policies, Controls, and Procedures

The Senior Expert Head, Financial Transaction and Examination, (FIC) said that banks and non-banking financial institutions are required to have in place an up to date manual that defines all procedures in place to combat the financing of terrorism and prevent money laundering activities.

2.16.2 Duty to Appoint a Compliance Officer

The Senior Expert (FIC) indicated that the compliance officer should be a senior official and shall among others develop AML/CFT compliance program, receive and vet suspicious transaction reports from staff, file such suspicious transaction reports to the Financial Intelligence Centre, ensure that the financial institution's compliance program is implemented and co-ordinate the training of staff in AML/CFT awareness, detection and reporting. This officer shall serve as a liaison officer between the bank, Financial Intelligence Center, and training of staff.

2.16.3 Cooperation with Competent Authorities

According to the Senior Expert, the co-operation is supposed to be by way of carrying out instructions as may be directed by the competent authorities such as NBE, FIC, FEACC, ERCA, etc, providing required information in a timely manner as may be requested by these institutions and protecting the integrity, security and confidentiality of the request.

2.16.4 Duty to Perform Customer Due Diligence (CDD)

The Senior Expert (FIC), added that CDD is to be performed in instances where a business relationship is established, or where transactions with a minimum threshold of Br. 300,000, USD 15,000 or equivalent in other foreign currency are carried out, where there is a suspicion of money laundering or terrorist financing and where there are doubts about the authenticity of previously obtained information about the customer.

2.16.5 Reporting Of Suspicious Transactions (STRs)

As the table below show, there are different entities that are reporting suspicious transaction and among them state owned banks have sent more suspicious transaction reports than private banks.

Table 4.9 Suspicious Transaction Reports

S.No.	Reporting Entities	Suspicious Transaction Reports/Year				Total
		2012	2013	2014	2015	
1	State owned Banks	21	226	318	633	1,198
2	Private Banks	15	274	256	209	754
3	From FIC Supervision	-	-	40	53	93
4	From other Competent Authorities	-	1	4	2	7
	Total	36	501	618	897	2,052

Source: FIC Data, 2016

2.16.6 Reporting Of Cash Transactions (CTRs)

As the table below show, there are different entities that are reporting cash transactions and among them state owned banks have sent more cash transaction reports than private banks.

Table 4.10 Cash Transaction Reports

S.No	Reporting Entities	Cash Transaction Reports/Year				Total
		2012	2013	2014	2015	
1	State owned Banks	104,774	546,166	625,161	578,298	1,854,399
2	Private Banks	143,826	448,351	456,238	442,614	1,491,029
	Total	248,600	994,517	1,081,399	1,020,912	3,345,428

Source: FIC Data, 2016.

2.16.7 Record Keeping

According to the Head, Information Systems and Financial Security Team Leader, (FIC), the Financial Action Task Force requires financial institutions to maintain records of customer transactions for a minimum period of 5 years and for customer identities, a minimum of 5 years following the termination of business relationships. The FIC however requires the retention of these records for a minimum of 10 years as against the 5 years prescribed by the Financial Action Task Force. She then said in an interview that it was necessary so that, a slight compromise on the part of any financial institution may still fall within the international requirement and not warrant any sanctions on Ethiopia.

2.16.8 Enhanced Due Diligence for High Risk Customers

According to the Head, Information Systems and Financial Security Team Leader, (FIC), the Directives mandate financial institutions to perform an enhanced due diligence for higher risk categories of customers, countries or geographical areas and business relationships or transactions. She mentioned categories of customers whom the FIC deems as high risk to be non-resident customers, high net worth individuals, trusts, Political exposed persons (PEPs) and cross-border business relationships.

2.16.9 Shell Banks

The Head, Information Systems and Financial Security Team Leader, (FIC) also stated that one other expectation of financial institutions is for them not to deal with shell banks or banks that have correspondent banking relationship with shell banks. According to her, a shell bank is a bank that has no physical presence within the country where it was licensed and not affiliated to any Bank in that country.

2.16.10 Attention to High Risk Countries

According to The Head, Information Systems and Financial Security Team Leader, (FIC) financial institutions shall give special attention to their business relationships and account transactions with legal persons and other financial institutions from countries which do not or insufficiently apply the FATF recommendations. The Head of FIC also stated that Ethiopia was among 15 of such countries recently published as having weak AML controls in place.

2.16.11 Foreign Branches and Subsidiaries

According to The Head of FIC, this is necessary because any breach by a parent or subsidiary of the financial institution can adversely affect the local financial institution and influence the AML evaluation of Ethiopia by FATF. Except Commercial Bank of Ethiopia no bank has branches and subsidiaries outside the country.

2.16.12 AML Employee Awareness/ Training Program

The Head of FIC said that, although the frequency of the training program was not spelt out by the Directives, it was expected of Banks to hold both in-house and third-party facilitated training sessions for its staff within short intervals in each year especially for the Compliance officers.

2.16.13 Employees Account Monitoring

According to the Head of FIC, employee accounts are to be monitored by financial institutions for transactions that are potential signals of money laundering. Any account found to be inconsistent with the salary pattern of the staff is subjected to investigations. This is also contained in the AML/CFT Directives.

2.16.14 Protection of Staff who Report Violations

The Directives require financial institutions to formally order their employees to co-operate with the Regulators and law enforcement agencies. They are also required to make it possible for employees to report any non-compliant acts of the institution's AML/ CFT compliance program to the AML/CFT Reporting Officer.

2.16.15 AML/CFT Risks Assessment

The Head of FIC also indicated that the Directives require all financial institutions to identify, assess, and understand the money laundering and terrorist financing risks. This includes but not limited to: document their risk assessments; include all the relevant risk factors before determining the level of overall risk and the appropriate level and the type of mitigation to be applied; keep assessments up to date; and have appropriate system to provide risk assessment information to the NBE and the FIC on a half-yearly basis. She said the FIC further requires financial institutions to design additional risk mitigations to serve as contingency plans.

2.16.16 Testing For the Adequacy of the AML/CFT Compliance Program

Another requirement pointed out by the Head of FIC was for financial institutions to make a policy commitment to subject their AML/CFT compliance program to independent-testing. She said alternatively, they may require the internal audit function of the institution to assess adequacy, completeness and effectiveness of the program. She also quoted the Directives as saying that a report of compliance Program is required to be submitted to the Board of financial institutions and FIC on or before the end of every financial year and all identified weaknesses and inadequacy addressed by the financial institutions.

2.16.17 Formal Board Approval of the AML/CFT Compliance Manual

The compliance manual of every financial institution requires the approval of the Board of Directors who must satisfy themselves of the adequacy of the compliance policy guidelines as presented to them by the management of the financial institution. According to the Head of FIC, copies of the manual must be submitted to the FIC within three months of release and this has been included in the Directives.

2.16.18 Report of Politically Exposed Persons (PEPs)

The Head of the FIC, stated that Financial Institutions are required to report PEPs' transactions to the FIC. According to the Directives, categories of accounts that fall within these categories include Government officials, Senior Public Officials, Senior Judicial and Military Officers, CEOs of state owned companies/corporations and family members and associates of these categories of people. They also include Government Ministries and Parastatals accounts, State Ministries and Local Government accounts managed by public officers appointed Chief Executive Officers of the respective tiers of government.

2.16.19 Minimum Requirements for Wire Transfers

According to the Directives, for all wire transfers, the ordering financial institutions should obtain and maintain information associated with the originator of the wire transfer including, the name of the originator, the originator's account number or a unique reference number if no account number exists; and the originator's address which can be substituted with identity number, customer identification number or date and place of birth.

2.17 Efforts Made by Regulatory Bodies in combating ML

According to the Head FIC, Prior to 2014 Ethiopia has been listed as one of high risk jurisdiction countries which have AML/CFT strategic deficiency. In order for the country to be out of the FATF black list efforts such as the enactment of proclamation on AML by the Ethiopian Government in 2009 followed by its implementation Directive of the National Bank of Ethiopia by 2010 were made. After these initial measures the FIC was established as a sole authority to handle any and all issues related to AML. The FIC is an independent institution which regulates the financial institutions through its AML laws and Directives and set up to assist in identifying

proceeds from illegal activities, make information available to investigative bodies, and liaise with other countries FIUs for the exchange of information that will help fight money laundering and combat the financing of terrorism. The FIC in its turn made efforts of creating awareness about AML, revised the 2009 proclamation and substituted it by Proclamation No. 780/2013 to include all the 40+9 FATF recommendations, criminalize money laundering, enforced the requirements of these recommendations on all financial institutions in Ethiopia and continues such efforts to this date. As a result the objective of all the efforts has been met and Ethiopia is now one of FATF compliant countries since 2014.

2.17.1 International Laws Enforced FIC

According to the senior expert Head, Ethiopia has ratified a number of regional and international instruments that directly support its AML/CFT regime, including: UN transnational organized crime Convention, UN Vienna Convention against drugs and psychotropic substances and related protocols, Organization of African Unity anti corruption conventions, IGAD mutual legal assistance convention, IGAD extradition convention, and UN action plan that committed Ethiopia to implement, UN Security' Council Resolutions 1267 and 1373 UN Security Council. Despite these efforts, Ethiopia has been stated many times 'public Statement' (Black List) by FATF, starting 18 Feb, 2010 to Feb, 2014. FATF declares 'public statement' in every four months of the year.

Ethiopia is evaluated or scrutinized on a yearly basis by FATF whether the country is complying with the international laws. The Director said based on those evaluations which include the FIC and selected banks, Ethiopia after going through several stages is now one of FATF compliant countries.

2.17.2 Factors That Facilitate Money Laundering In Ethiopia

As per the Senior Expert FIC, one of the main factors that facilitate money laundering in Ethiopia is the countries' economy being highly cash based. These results in the difficulty to identify source of funds, the legality of the cash involved in transactions, and lack of controlling mechanism when large amount of money exchanged within the economy. The other one is the highly spreading culture of corruption in the country which also includes high government officials. He also said tax evasion of big companies which facilitate money laundering. He

expressed that the competent authorities are not cooperative to exchange information on any suspicious financial activities with the FIC which created information gap and difficulty in detection of predicate crimes that are related with ML. The expert also said that even if there are laws that are set out to prevent AML and other related issues they are not being fully implemented in the country which may create ML to take place.

2.17.3 Adverse Effects of Money Laundering In Ethiopia

According to the Directorate FIC, money laundering has many adverse negative economic, social and political effects in Ethiopia. Economically Ethiopia could lose revenue from taxes, fair distribution of income and wealth, and foreign direct investment. Socially, money laundering enhances corruption, organized crime, and lack of security. Politically, its effect may take a longer term as a result of increased organized crime and instability in the economy Government may lose its power. He also stated that several other significant effects that money laundering can cause such as: Ethiopia being named 'Non-Compliant' on the FATF list, banks will be unable to have correspondent banks to work internationally, and Ethiopia will be illegible to receive any loans from the World Bank and IMF.

2.17.4 Monitoring Mechanism and Support of FIC

According to the Director FIC, FIC monitors the banks activities in relation to AML through CTR and STR reports, annual supervision and by checking the structure of the compliance office. Furthermore, the FIC monitors the effective implementation of the AML procedures by checking the compliance function of the bank such as assignment of compliance officers, KYC, CDD, Training programs, record keeping, and the audit function. In terms of support the Director said so far FIC helps the banks only on awareness creation through trainings and panel discussions with compliance personnel. He expressed that FIC is working with Information Network Security Agency (INSA) to provide the banks with the AML software with affordable cost.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

This chapter presents conclusions based on findings made in the previous chapter on the role of Private commercial banks in combating money laundering and their effectiveness in the case of Dashen and Berhan Banks. being brought into perspective. It also proposes recommendations in the light of findings made during the study.

5.1 Conclusion

The study is focused on the assessment of the role of private commercial Banks in Ethiopia play in combating money laundering and their effectiveness as well as the requirement set out by the regulatory bodies. Among the sixteen private commercial banks in Ethiopia, Dashen and Berhan Banks have been targeted to make the case study in the paper. It was obvious that both Banks are contributing their quota in fighting against money laundering in Ethiopia. Their contribution is however not enough as some obvious deficiencies have been found out during the study. The efforts in combating money laundering made by the Banks were limited by certain factors and challenges which are not within their control.

As the result of the study revealed even though the efforts in implementing AML/CFT regulations they are not strong enough to discourage money laundering. Control measures such as KYC, enhanced CDD, training of staff and reporting of suspicious transactions were not adequate to help attain the goals of AML/CFT. As a result of their ineffectiveness the adverse impact of money laundering on the economic and political, and social aspects of the country may not be controlled. These limitations should be addressed to by the Banks as well as the regulatory bodies such as FIC and NBE in order to curb money laundering in Ethiopia.

The results of this study show that although FIC has full authority to sanction any bank or financial institution which fail its supervision, this has never been exercised. Although, it may not be the aim of FIC to impose sanctions on banks, it should be effective in this regard in case of violations against AML/CFT regulations. The following are the main challenges encountered by the Banks in the implementation of rules and regulations:

- a) Lack of standard national identification card and reliable government database for verification of individual identity which are essential to perform KYC and CDD.
- b) Lack of trained manpower and very limited number of assigned staff members for compliance issues especially on AML implementation.
- c) Inability to carry out enhanced due diligence on PEPs and High risk countries and Local designated terrorists due to lack of provision of list of their names from the FIC.
- d) As reporting of suspicious and cash transactions are the major monitoring mechanisms set by the FIC, it needs an ICT infrastructure. The AML software is absent in both targeted Banks as well as any other banks, due to its expensiveness.

The fight against money laundering needs local and international cooperation in exchanging information about any criminal activities that involves the financial institutions such as banks, and between competent authorities. However, this cooperation is missing in the Ethiopian banking system as well as between competent authorities.

To conclude the Banks are making the efforts in the implementation of AML regulations imposed by the regulatory bodies, but so far they are unable to achieve effectiveness. This implies the lack of self initiation and the existence of conflict of interest because pursuits of deposit mobilization can result in their failure in the implementation of AML. As Broome stated:

“In order to reach the highest levels of AML compliance in individual institutions, they have to take initiative to develop self-interest in the effective functioning of AML compliance in financial sectors and high professionals are needed.”

5.2 Recommendations

Based on the conclusions drawn above, the following recommendations are proposed to increase both Banks’ efforts towards effective implementation of AML regulations and contribution to the fight against money laundering. Also to enhance the efforts made by the regulatory bodies for the same purpose.

- a) The compliance departments of the Banks should be sufficiently staffed with trained and qualified staff that should be given opportunities to be certified in AML.

- b) The department should be well structured to have a dedicated officer all forms of regulatory reporting, an officer for KYC compliance, an officer for branch compliance review, and an officer for Corporate Governance and Ethics.
- c) The Human Resource Department of both Banks should arrange for staff of the Compliance department to participate on external Anti-Money Laundering training sessions organized by renowned AML training institutions.
- d) The quarterly training session should be strictly followed and all areas of AML need to be covered.
- e) Both Banks should acquire Anti-Money Laundering software and the National Bank of Ethiopia should make this a mandatory requirement for all banks. The software will help in identifying transactions involving large amounts which is inconsistent with customers' activity levels or beyond defined thresholds, filter out blacklisted names or names associated with drug cartels, generate reports as may be pre-defined, provide an audit trail of money laundering issues and eliminate the element of inaccuracies, human errors and deliberate omissions associated with the manual approach currently adopted by both Banks.
- f) The Internal Audit departments of both Banks should perform regular reviews of the Compliance function and recommend better implementation of the already set out requirements.
- g) The National Bank of Ethiopia should also conduct on a regular anti-money laundering audit of all Banks to ensure that Banks comply with the FIC Directives. Heavy sanctions should apply for non-compliance.
- h) The National Bank of Ethiopia should facilitate co-operation between the banks to filtrate potential criminals from the Ethiopian financial system. This should be reflected during meetings of the Ethiopian Bankers Association. Both Banks should play their part by responding to enquiries from other banks for the purpose ascertaining the genuineness of customer details support.
- i) The FIC should train the compliance officers about AML by initiating quarterly regular trainings and panel discussions. The trained compliance officers should be able to transfer the acquired knowledge throughout their respective banks.

- j) The National Bank of Ethiopia and the Financial Intelligence Centre, and other competent authorities such as FEAAC, Federal Police Commission, ERCA, and etc., should collaborate and cooperate to fill in the information gap which could be a source for ineffective implantation of AML regulations and which may facilitate money laundering.
- k) The findings of the study have prompted suggestions for further research. This research focused on only in Dashen and Berhan Banks and it has tried to show the efforts, the challenges and weaknesses they encountered during implantation of AML. This narrow scope calls for further research studies on the subject most of the challenges and weaknesses identified in both Banks may not be unique to only the targeted Banks. There is a big chance of other Banks and Non-Banking Financial Institutions having similar weaknesses and challenges. Further research into Anti-Money laundering processes in other banks and Non-Banking Financial Institutions is important to give a general idea of challenges all banks face in the fight against money laundering. Further research on the larger scope into AML, which probably cover the whole financial sector, will enable a high level of effectiveness in the fight against money laundering and provide a long term relief to the regulatory bodies, to the financial sectors and the country as a whole.

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