ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

GENERAL MBA PROGRAM

CHALLENGES AND PRACTICES OF ANTI-MONEY LAUNDERING AND COMBATING OF TERRORISM FINANCING-THE CASE OF THE ETHIOPIAN COMMERCIAL BANKS

BY

BETHELIHEM ADDIS

ID NO SGS/0078/2010A

JUNE, 2019

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A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF GENERAL MASTERS OF BUSINESS ADMINISTRATION (MBA)

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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

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

Name	Date and signature

ENDORSEMENT

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

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Advisor Signature

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ACRONYMS

AML-Anti Money Laundering

AML/CFT- Anti Money Laundering /Combating Terrorist Financing

CDD-Customer Due Diligence

CTF-Combating Terrorism Financing

CTR-Cash Transaction Report

CBE-Commercial Bank of Ethiopia

DNFBP-Designated Non-Financial Business and Professionals

EFIC-Ethiopian Financial Intelligence Centre

ESAAMLG-Eastern and Southern Africa Anti-money Laundering Group

FATF-Financial Action Task Force

FIC/FIU-Financial Intelligence center/Unit

IMF-International Monetary Fund

ICRG- International Cooperation Review Group

KYC-Know Your Customer

ML-Money Laundering

OFAC–Office of Foreign Assets Control

PEP-Political Exposed Person

STR-Suspicious Transaction Report

TF-Terrorist Financing

UN–United Nation

WB-World Bank

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Abstract

Over the last decade, there has been an increase in the number of money laundering and terrorist financing crimes across the globe. In a bid for authorities to control these criminal activities both locally and internationally, the Financial Action Task Force (FATF) 40+9 recommendations were established as a mechanism for identifying, combating and controlling money laundering activities. Ethiopia recently endeavored to combat money laundering and terrorist financing by criminalizing money laundering and financing of terrorism through proclamation no. 780/2013. In this regard, banks play a leading role as the main objective of the law is to ensure the integrity of the Ethiopian financial system. Therefore, the purpose of this research is to assess the Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) practice and challenges of commercial banks in Ethiopia in accordance with international standards and applicable laws. This study employed exploratory and descriptive research design in the form of close ended questionnaires completed by 69 employees of Ethiopian commercial banks. To assess the practice and challenges 48 questions were provided to the respondents to acquire quantitative data and eight close ended interview questions were also provided to accommodate opinions of FIC officials. Based on the respondents among the commercial banks' the study found that commercial banks in Ethiopia have been discharging their responsibilities by implementing and practicing AML/CTF. However, ML/TF preventive measures revealed that commercial banks do not have automatic electronic customer/transaction screening and the finding confirmed that absence of national ID and lack of list of Political Exposed Persons, lack of technology to enhance AML/CFT activities and lower awareness in the country are serious challenges for banks. Therefore EFIC and NBE and other responsible organs of the country have to focus their efforts on the most fundamental tasks and main challenges, and need to give utmost priorities about AML/CFT. Finally, as this study focuses on commercial banks, further research is needed on the other financial and nonfinancial sectors which are vulnerable to money laundering and terrorist financing.

Key Words: *Money Laundering, Terrorist Financing, AML/CFT, Commercial Banks*

CHAPTER ONE
INTRODUCTION

1.1. Background of the Study

Money laundering is not the oldest crime in the book but it's certainly close. The origin of money laundering can be traced back to as early as 1930s in organized criminal activities. It is originated from Mafia ownership of Laundromats in the United States. Gangsters there were earning huge sums in cash from extortion, prostitution, gambling and bootleg liquor, and they needed to show a legitimate source for this income (Davies and Salt marsh, 1994).

Whereas, Terrorism is not a 21st century phenomenon and has its roots in early resistance and political movements. Modern terrorism largely came into being after the Second World War with the rise of nationalist movements in the old empires of the European powers. These early anti-colonial movements recognized the ability of terrorism to both generate publicity for the cause and influence global policy (Max Roser, 2018).

Money laundering and terrorism financing (ML/TF) continues to be a serious global threat which can adversely affect a country's reputation and lead to dire economic and social consequences, such as de-risking (Central bank of Trinidad &Tobago, 2018).

It also cripples economies, distorts international finances and harm citizens around the globe. Estimates of the amount of money laundered world wide range from US$500 billion to a staggering US$ 1 trillion (Basel AML index, 2018).

The United Nations Office on Drugs and Crime (UNODC) conducted a study to determine the magnitude of illicit funds generated by drug trafficking and organized crimes and to investigate to what extent these funds are laundered. The report estimates that in 2009, criminal proceeds amounted to 3.6% of global GDP, with 2.7% (or USD 1.6 trillion) being laundered.

The practice of money laundering, among other economic and financial crimes steps in to the economic and political structures of most developing countries, therefore resulting in political instability and economic digression and it is still a great concern for the financial services industry and has an impact on the financial behavior and macroeconomic performance of the industrialized countries (Wikipedia.org, 2019).

Illegal money can be moved anywhere in the world with speed and ease. The escalation of the drug market and the globalization of organized crime have led to an increased international awareness of the problem of money laundering. Money laundering and terrorist financing are transnational, cross-border, multifaceted, and complex problems that require cooperation and coordination among actors looking to successfully respond to them (Bartlett, 2002).

Unless money laundering and terrorist financing are controlled and eliminated, the future can boost corruption, worsen poverty, render financial institutions vulnerable, destabilize countries and adversely affect domestic as well as foreign direct investments to countries involved at the expense of ordinary citizens (Chutia, 2013).Currently, almost all countries in the world, including Ethiopia, have installed AML/CTF regimes and are practicing prevention measures in banks.

Finally, the choice of this topic is driven by different reasons and motives. The main reason for selecting the topic of the study is that, according to FATF statement report regarding Ethiopia, it declares that the country has not committed to the Anti- Money laundering and combating the Financing of terrorism (AML/CFT) by international standards, nor has it constructively with the FATF. As a result the FATF has identified Ethiopia as having strategic AML/CFT deficiencies that pose a risk to the international financial system and this hinders banks to get correspondent banks easily, or needs enhanced due diligence and also to pay unnecessary confirmation cost.

Taking the above listed reasons into account the researcher motivated to choose the topic be "Challenges and Practices of Anti-Money Laundering and Combating of Terrorism Financing"- The Case of the Ethiopian Commercial Banks.

1.2. Statement of the Problem

Money laundering and terrorist financing are among the growing criminal activities in East Africa and the Greater Horn region. (Mutual evaluation report, 2015).Money laundering and terrorist financing are transnational, cross-border, multifaceted, and complex problems that require cooperation and coordination among actors looking to successfully respond to them. Not only do money laundering and terrorist financing negatively affect the integrity and stability of the financial sector, but they also undermine national security and economic development goals. Strong measures on anti–money laundering (AML) and countering the financing of terrorism (CFT) can help mitigate criminal behavior by reducing or eliminating the economic gain from criminal activities (Tu'emay,2013).

FATF assessment revels that, money laundering is posing a significant danger to the developmental and security efforts of the world. Being a principally informal and cash-based economy, Ethiopia is exposed to terrorism financing and money laundering activities.

Bearing this in mind the European Commission blacklisted Ethiopia for being very risky in money laundering and terrorism financing, along with Iran, Syria, Yemen and seven other nations urging banks situated in Europe to apply enhanced due diligence on financial flows from the country and countries that do not comply with FATF's Recommendations, economic sanction is stated as a sanction toward enforcement. This sanction has adverse impacts on the economy of a nation as screening imports and exports are complicated (FATF, 2013). And "Countries on this list will be subjected to additional counter checks and the 'know-your-customer' (KYC) rules- which involves cross-checking the business and identity of clients.

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

The banking sector is particularly vulnerable to money laundering and terrorist financing risks owing to the fact that the traditional banking process of deposit taking, money transfer and lending do offer vital laundering mechanisms (WB, ESAAMLG, 2015 mutual evaluation).

Therefore, this study tried to examine AML/CFT practices and challenges of commercial banks in Ethiopia as the leading institutions and the measures being taken by FIC in light of FATF recommendations and best practices.

1.3. Research Questions

Cognizant of the problems stated, the study tried to assess challenges and practices of Anti money laundering and terrorism financing in Ethiopian commercial Banks by formulating questionnaires to address the following issues:

- To what extent the policies and procedures that guide Anti Money Laundering and Combating of Terrorism Financing available in commercial banks?
- To what extent the preventive mechanisms are implemented in Commercial Banks to fight Money Laundering and Terrorism Financing act?
- To what extent commercial banks comply to the AML/CFT practice?
- What are the challenges of implementing effective Anti-Money Laundering and Financing of terrorism practices in commercial banks in Ethiopia?

1.4. Objectives

1.4.1. General Objective

The general objective of the study is to assess practices and challenges of AML/CFT in Ethiopian Commercial Banks.

1.4.2. Specific Objectives

- To assess policies and procedures that guide Anti money laundering and Combating of Terrorism Financing.
- To identify the preventive mechanism used in Commercial Banks to fight Money Laundering and Terrorism Financing act.
- To assess the extent of how commercial banks comply to the AML/CFT practice.
- To point out the challenges of implementing effective Anti-Money Laundering and Financing of terrorism practices in commercial banks in Ethiopia.

1.5. Significance of the Study

This study explores the “Challenges and Practices of "Anti-Money Laundering and Combating of Terrorism Financing”-The Case of the Ethiopian Commercial Banks. As such, the study yields great contribution to research and practice. The research contribution is attributed to the existing body knowledge and research regarding the challenges and practice of AML/CFT in banking industry. Besides providing further evidence to findings of prior studies, this study has also identified and provides contemporary information which can be used in the fight against money laundering and terrorist financing activities that worth for further research and validation.

The findings of this study will help Ethiopian banks get insight on what it takes to improve their effective AML/CFT mechanisms to the stake holders like the Central Bank (NBE) and EFIC to the implementation of FATF recommendations.

1.6. Scope of the Study

This research paper, which is essentially about assessing challenges and practices of AML/CFT both in private and state-owned commercial banks, has focus on Head Office (particularly Risk and Compliance Department) of each bank located in Addis Ababa.

The financial institutions such as banks, insurance companies, micro finance institutions, postal savings, money transfer institution or any other institution designated by the NBE are under the legal framework of AML/CFT and non-financial businesses and professions (DNFBP). Because of its wide in nature and deserve long studying time the study focused only on commercial banks for subsequent assessment of their respective AML/CFT activities.

1.7. Organization of the Research

The research has five chapters. Chapter one introduce about the whole study. The second chapter deals with review of theoretical and empirical literatures. The third chapter provides details of research design, source and instrument of data collection, the procedures and the methods of data collection and the methods of analysis. Chapter four contains results and discussion of the research. Finally, the last chapter presents summary of the results, conclusion of the research and recommendations forward based on the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1. Review of Theoretical Literature

This chapter briefly reviews literatures on the concept of money laundering and the combat against it at international and national levels. It also highlights the practices of AML/CFT in Ethiopian Banks and challenges encountered;

2.1.1. Money Laundering

Money laundering can be defined in a number of ways. Most countries subscribe to the definition adopted by the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (Vienna Convention) and the United Nations Convention Against Transnational Organized Crime (2000) (Palermo Convention):

The conversion or transfer of property, knowing that such property is derived from any (drug trafficking) offense or offenses or from an act of participation in such offense or offenses, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in the commission of such an offense or offenses to evade the legal consequences of his actions;

The concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is derived from an offense or offenses or from an act of participation in such an offense or offenses, and;
The acquisition, possession or use of property, knowing at the time of receipt that such property was derived from an offense or offenses.

According to the UNTOC (2000) (Palermo Convention), money laundering can be defined as the process of converting illegitimately obtained proceeds into seemingly legitimately obtained proceeds by concealing or disguising the true, nature and Source, location, and ownership of illicitly obtained proceed.

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).

2.1.2. Terrorism Financing

To define terrorism globally is perplexingly difficult without taking into account the nature of the crime or method deployed. Definitions therefore vary, and are dependent upon particular frameworks based on the relevant body (Sorel, 2003). Article 2 of the 1999 UN International Convention for the Suppression of the Financing of Terrorism provides the following definition for terrorism financing:

'Any person commits an offence within the meaning of this Convention if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.' (UN, 1999)

The IMF defines terrorism financing as the process through which individuals or organizations collect funds with the aim of applying those funds to the execution of terrorist deeds. (IMF, 2003). This denotation is similar to the World Bank's (2009) definition which states that terrorism financing is any form of financial support towards terrorism, or those who conspire, participate, and encourage the execution of terrorist deeds.

2.1.3. Links between Money Laundering and Terrorism Financing

The techniques applied in money laundering are synonymous with those applied in disguising the origins and uses of terrorist funds. Monies applied in funding terrorism may either be generated from criminal activities, legal sources, or both. However, it is necessary to conceal the origins of terrorism funding irrespective of whether the sources are legitimate or not. The implication is that if the source of funds can be disguised, then it would be difficult to prosecute terrorism acts. Additionally, it is imperative that terrorists and terrorism organizations disguise the origin of their funds so that the funding continues without being detected (Schott, 2006).

Money laundering and terrorism financing share a number of similar characteristics of combining monetary actions with criminal misdemeanor. Wesley (2010) asserts that similarities attributed to terrorism financing and money laundering lie in the procedures, tactics and techniques applied by both organizations when disguising and transferring funds. Similarities exist in the layering of the finances to disguise their origins and the ability to identify and take advantage of countries with weak legislations. The key difference between the money laundering and terrorism financing is that money laundering involves illegally obtained money, whereas terrorism financing entails both legitimate and illegitimate funds. (Johnson, 2008)

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

Despite the fact that money laundering has come to touch every aspects of the lives of society, the use of banks and other financial institutions is often primary means by which money launderers clean otherwise dirty money (Doyle,2002).

Money laundering has clearly become endemic to country's social, economic and political frameworks; it ultimately affects and often subverts not only banking and other financial institutions, but also both multinational corporations and small businesses, legislatives and law enforcement officials, lawyers and judges, politicians and high ranking officials.

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).

2.1.4. AML/CFT and its Preventive Measures

The FATF forty recommendations on Money Laundering has established a number of preventative measures that a country should adopt in the anti-money laundering (AML) area. These preventative measures are applicable to all financial institutions.

In order to prevent financial institutions from being used by criminals, internal policies which vary depending on the type and size of a particular financial institution and the scope and nature of its operation need to be in place. Internal policies should include ongoing training that keeps employees well-informed of the latest developments on AML and CFT.

The FATF Recommendations 5 – 25 are for preventive measures these recommendations enable countries to enter in to global alliance to fight the activities of money laundering and criminals. Such as:-

i. Customer Due Diligences (CDD)

Sound customers due diligence (CDD) procedures are the critical element in the effective management of banking risks as provided under recommendation. CDD safeguards go beyond simple account opening and record keeping but require banks to formulate a client acceptances policy that involves extensive due diligence for higher risk accounts and including proactive account monitoring for suspicious activities in combination with different profits.(FATF,2012)

CDD will help to protect the regulation and integrity of the financial system by reducing the likelihood of banks becoming vehicles for financial crimes and it also constitutes essential part of sound risk management. In the other edge, the inadequacy or absence of Know Your Customer policy (KYC) can subject banks to serious customer or a counterpart risk; especially reputational, operational, legal or concentration risks which can result in significant cost to Banks (Patrick Hardouin, 2009).

ii. Politically Exposed Persons (PEPs)

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

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

iii. Record Keeping

After the end of business relations as part of CDD measures, financial institutions are required to keep records on both domestic and international transactions for at least five years, 10 years in Ethiopian case. Such records must be sufficient enough to permit reconstruction of individual transaction including the amount and type of currency involved in the transaction in a way that may help investigations at the time of prosecution.

Financial institutions should record the following information for each and every transaction name of the customer and/or beneficiary, address, date and nature of the transaction, type and amount of currency involved in the transaction, type and identifying number of account; and other relevant information typically recorded by the financial institution (FATF, 2012).

iv. Correspondent Banking

In addition to performing normal CDD, banks should gather sufficient information about a respondent institution, assess the respondent institutions 'AML/CFT controls, and clearly understand the respective responsibilities of each institution.

v. **New Technologies:** Banks should identify and assess the ML/TF risks that may arise in relation to the development of new product and business practices and also the use of new or developing technologies for both new and pre-existing products.

vi. **Wire Transfers:** Banks should include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain.

vii. Internal Control and Audit

Financial institutions should establish and maintain internal policies and procedures to prevent their institutions from being used for purposes of money laundering and terrorist financing. Internal procedures include ongoing training that keeps employees informed and up-to-date about developments on AML and CFT.

An audit function is also a required internal policy and procedure that needs to be established; the audit function should be separate from the compliance administration function, in order to test and assure the adequacy of the overall compliance function (Ibid).

viii. Suspicious Transaction Reporting/Report (STR)

Special attention should be paid to unusual patterns of transactions and complex and unusual large transactions (FATF,). These transactions should be examined thoroughly and the findings should be recorded systematically.

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

ix. Adopt Risk Based AML/CFT Compliance Programs

A risk-based approach to AML/CFT is essential for the implementation of an effective AML/CFT risk management framework the risk based approach allows for the implementation of appropriate customer due diligence, verification and monitoring procedures that are proportionate to the identified ML/TF risks that the financial institution is exposed to from its customers, products and countries with which it transacts business.

The risk-based approach requires financial institutions to implement measures to mitigate the risks identified from its enterprise business risk assessment that are appropriate for the nature, size and complexity of the financial institution.

x. Transaction Monitoring

Financial institutions must have appropriate processes in place that allow for the identification of unusual transactions, patterns and activity that is not consistent with the customer's risk profile. Since these will not all be suspicious, financial institutions should also have processes to analyze transactions, patterns and activity to determine if they are suspicious and meet the reporting threshold. (Ibid)

Financial institutions should also have systems and procedures to deal with customers who have not had contact for some time, such as dormant accounts or relationships, to be able to identify future reactivation and unauthorized use.

2.1.5. Challenges of AML/CTF Implementation and Practices

According to Yepes (2011), population size, the country's level of development, geographical factors, cultural links, political stability, IT infrastructure, compliance costs are the major challenges in implementing AML/CTF in financial services of a country. Other contextual challenges that might significantly influence the effectiveness of a country as well as its banks' AML/CFT measures include the maturity and sophistication of the regulatory and supervisory regime in the country; the level of corruption and the impact of measures to combat corruption; or the level of financial exclusion. Such factors may affect the ML/FT risks.

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

(African Dev. Bank, 2007) revealed that implementing comprehensive AML/CFT policies in the context of developing countries offers some unique challenges. All countries face certain challenges in fully implementing the FATF 40+9 recommendations, but the capacity and resource constraints of low income countries make it particularly difficult for them to implement all the necessary measures simultaneously. For instance the frequent absence of the required legislative framework, Lack of effective criminalization of ML/FT, and the relative ineffectiveness of financial sector supervision are all factors which render financial sectors in Africa alarmingly vulnerable, there is a significant cash-based and parallel economy in which money circulates outside of conventional financial systems.

Economic Community of West African States (ECOWAS) members converged in Dakar, a 2-day regional workshop, 9-10 July, 2010, identified that challenges facing financial institutions in GIABA member States are weak internal control framework, poor corporate governance framework, dearth of competent internal control officers, lack of central database, reluctance of banks to share customer information, weak legislations and lack of awareness and training on AML/CFT issues.

Other challenges identified in the implementation of AML/CFT issues by financial institutions at the workshop are inability to authenticate and verify documents submitted by customers and genuineness of officials documents from issuing authorities, unhealthy competition, lack of adequate and timely feedback on reported cases and suspicious transactions and lack of political will and commitment to the fight against money laundering and financing of terrorism etc.

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 trials, 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 Maccdonald ,(1992-1993).

On the other hand, Tue'may state 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).

2.1.6. The AML and CFT Regime in Ethiopia

In AML/CFT Laws in Ethiopia, until 2005, money laundering was not punishable offence under the provisions of Ethiopian penal law. However, after the enactment of the Criminal Code of the Federal Democratic Republic of Ethiopia (FDRE, 2005), money laundering is sanctioned as punishable criminal offense. As stated in the Preamble of this Criminal Code, one of the fundamental reasons that necessitated its promulgation is "… the discernible gap in the Penal Code of (1957) is its failure to properly address crimes born of advances in technology and the complexities of modern life.

The Penal Code (of 1957) does not incorporate crimes such as the hijacking of aircrafts, computer crimes and money laundering." The new code therefore regards money laundering as one of the offense that falls under "Crimes against Property"; especially "Crimes against movable property" [from Article 665 to 684]. Some of the other offenses that fall under this category are theft, robbery, looting, piracy, breach of trust, misappropriation of property and receiving.

In line with the above provision of the Criminal Code the Ethiopian Government has enacted detailed law that came into effect as of December 16th 2009; this Proclamation on "Prevention and Suppression of Money Laundering and the Financing of Terrorism" [Proclamation No. 657/2009] has 27 Articles and has made financial institutions to be one of the accountable persons for proper execution of the AML Proclamation. This Proclamation has also provided for establishment of one government organization called Financial Intelligence Center to be responsible for ensuring proper execution of the provisions of the proclamation.

The Proclamation provides that financial institutions are obliged to properly identify their customers and provide information relating to their customer to the Center; in addition, the law states that Ethiopia will assist the international cooperation to suppress AML. This proclamation later revised and detailed law came into effect on the 4th day of February 2013; this Proclamation on "Prevention and Suppression of Money Laundering and Financing of Terrorism" [Proclamation No. 780/2013] has 58 Articles and further endorsed the previous proclamations content on the role of financial institutions for proper execution of the AML Proclamation.

To effectively implement this Proclamation, National Bank of Ethiopia has issued Directives on "Customer Due Diligence of Banks" No. SBB/46/2010 that came into force effective March 4th 2010.

These Directives obliges banks to design and implement KYC policies and to report all deposits, withdrawals or transfers in excess of Birr 200,000 or USD 10,000 to the Financial Intelligence Unit. In addition to such transactions banks are also obliged to report any suspicious or unusually large transactions. However, this directive later revised by the Financial Intelligence Center following the revision of the 2013 Proclamation on Prevention and Suppression of Money Laundering and Financing of Terrorism No.780/2013. The Financial Intelligence Center of Ethiopia has issued the Directive on "Customer Due Diligence of Banks" No. CDD 01/2014 that came into force effective 24th day of January 2014. The directives has among others has increase the threshold for reporting to a minimum transactions that exceeds Birr 300,000, USD 15,000 or equivalent in other foreign currencies. On top of the above laws, the Ethiopia government has also promulgated Proclamation on Anti-Terrorism [Proclamation No.652/2009] that came into effect as of August 28th 2009, which has 38 provisions.

The Ethiopian Financial Intelligence Centre (EFIC) also issued AML/CFT compliance directive 02/2016 to be applied by DNFBPs. The directives require financial institutions and DNFBPs to institute and implement comprehensive AML/CFT program including customer due diligence and reporting suspicious transactions. (NRA, 2016)

The proclamation and the EFIC Directives are the two major sources of AML/CFT requirements that are applied by the banking sector operating in Ethiopia. Terrorist financing is also criminalized under Proc. No. 780/2013, Art. 31, as well as in a predecessor law, the Anti-Terrorism Proc. No.652/2009, Art. 31 and the procedure for the freezing of Terrorists Assets Council of Ministers Regulation no 306/2014.

Such an act is an offence beginning from its planning until its execution; both principal as well as secondary offenders are made liable. As per this Anti-Terrorism Law, all persons are obliged to report any suspicious acts and the law enforcement authorities are allowed to make sudden searches based on the warrant of courts; and similar to AML law statute of limitations is inapplicable for anti-terrorism offences. Properties that are dedicated for terrorism financing are also susceptible for forfeiture. National Anti-Terrorism Coordinating Committee is established as per the provisions of this Proclamation.

As per the National Money Laundering and Terrorism Financing Risk Assessment, 2016 the country has shown positive developments as well as gaps that need to be addressed in order to further strengthen the AML/CFT regime of Ethiopia. The assessment draws the following gaps and developments.

The country made considerable progress in building its AML/CFT regime. The progress includes but not limited to introducing AML/CFT policies and practices that comply with international standards. Enactment of proclamation 780/2013, the Council of Ministers Regulation no 306/2014 on the procedure for the freezing of terrorists assets and it ratified various conventions including Palermo, Vienna, Merida, UN Convention against TF and IGADs Conventions on Mutual Legal Assistance and Extradition.

According to the national ML/TF, 2016 risk assessment report, the AML/CFT of Ethiopia is in line with the Palermo and Vienna Conventions with respect to covering all ML/TF predicate offenses. And the crime of money laundering is punishable with rigorous imprisonment ranging from 10 to 15 years and with fine up to br.100, 000.The penalties are increased from 15 to 25 years and fine up to br. 150,000.00 in circumstances. (Proclamation 780,2013)

The Country became a member of ESAAMLG and it under took AML/CFT mutual evaluation assessment together with ESAAMLG and World Bank. However, Corruption, tax fraud/evasion, human trafficking and migrant smuggling, goods smuggling (Contraband), illegal Hawala, and fraud are categorized as high threat.(NRA,2016).

Terrorism financing is a high threat due to the existence of international as well as domestic terrorist groups in East Africa besides Ethiopian Economy is cash based, there is no regulation that limits physical possession of currency, this enables criminals to keep ill-gotten funds in cash and avoid audit trial, Ethiopia's national ID system did not start implementation, the banking system is not regionally and internationally integrated, the banking sector has gaps regarding automation of AML/CFT process, limited measures on anti–money laundering and countering the financing of terrorism (AML/CFT) and inadequate capacities to implement existing frameworks and legislation, there is limited awareness of the problems of money laundering and terrorist financing and their impacts.(Ibid)

2.1.7. Institutional Frame Work

Ethiopia has an institutional frame work that complies with the international standard and money laundering had been criminalized under Ethiopian law since 2004, action to fight money laundering and terrorist financing in Ethiopia received renewed impetus following the identification of Ethiopia by the FATF for strategic AML/CFT deficiencies in June 2010. (NRA, 2016)

The National Committee for Anti-Money Laundering and Combating the Financing of Terrorism (the National AML/CFT inter-agency Committee) was recently reorganized. And it consists of various institutions namely the Federal Attorney General, Ministry of Finance and Economic Cooperation, Financial Intelligence Centre, National Bank of Ethiopia, Federal Ethics and Anti-

Corruption Commission, Federal Police Commission, Ethiopian Revenues and Customs Authority, Charities and Societies Agency, and Ministry of Foreign Affairs is established and Functional.

The Ethiopian FIC is the principal AML/CFT authority in Ethiopia and is responsible for coordinating the prevention and countering of money laundering and terrorist financing after being established as per Proclamations Nos. 657/2009 in 2009 and became operational in 2011 (ESAAMLG, 2015). The center is independent and directly accountable to the prime minister. (NRA, 2016)

The key objectives of the FIC are to coordinate various institutions involved in the fight against money laundering and the financing of terrorism, to organize and analyze the information it receives and disseminates to law enforcement and to perform other related tasks to enable implementation of the Proclamation. As provided by article 21 of the AML law and the related regulation, the FIC has the following primary functions: (proclamation 780, 2013).

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

2.1.8. AML/CFT Requirements of the Banking Sector

According to the Ethiopian Financial Anti-Money Laundering and Countering the Financing of Terrorism Compliance Directives Number 01/2014 financial institutions shall establish, implement and maintain an effective program of compliance which includes policies, procedures and internal controls and a designated compliance officer in conformity with proclamations, directives and applicable laws, properly identify and verify customers using reliable independent documents, Screen customer names against SDN(software defined network) sanctioned lists upon establishing business relationships, Conduct enhanced and continuous due diligence for high risk customers and simplified due diligence for low risk customers, recording transactions and identifications evidence for a minimum period of ten years, adequate capturing of wire transfer originator and beneficiary information and obtaining and retention of records for cross-border wire transfer of USD 1,000 or domestic transfer or ETB 20, 000 for at least ten years.

Put in place appropriate risk management mechanism to determine whether a potential customer or existing customers is PEP and apply enhanced CDD accordingly, gather sufficient information about a respondent institution, assess the respondent institutions ‘AML/CFT controls and clearly understand the respective responsibilities of each institution. In addition, banks are prohibited from banking relationship with shell banks, monitoring and reporting of Cash and Suspicious Transactions: over the course of their business, banks are required to identify and report any transactions deemed suspicious with respect to the proceeds from illicit and criminal activities categorized as predicate offenses to the center.

Similarly, banks are required to report all cash transactions in any currency above the sum of ETB 300,000 or USD 15,000 or equivalent currency in a single transaction or several transactions that appear to be linked, banks are required to provide comprehensive employee awareness and training programs to make employees know their obligations towards protection from non-compliance risk and instilling a robust AML/CFT culture across their respective institution.

2.2. Empirical Studies on AML/CFT

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. 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).

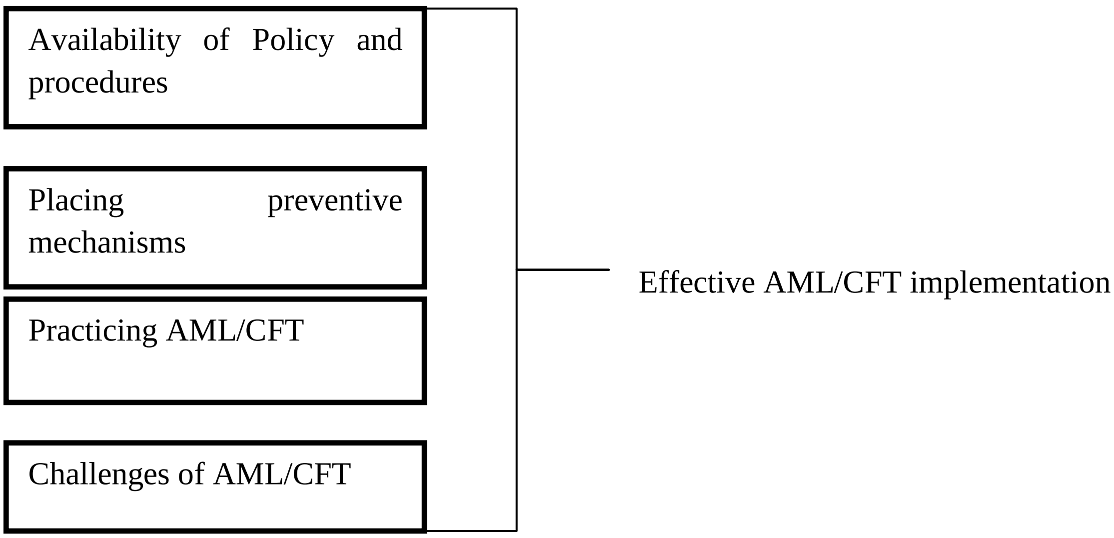
Regarding the national studies Biniam Shiferaw (2011) aimed to critically examine the anti-money laundering framework of the country with specific reference to the banking sector and to suggest ways of enhancing the effectiveness of the law in achieving its objective. The study suggested the existence of money laundering in Ethiopia and outlined that corruption, human smuggling, contraband and tax evasion activities are in need of money laundering in which banks have been wittingly or unwittingly participants in the process. In order to achieve its objective, the researcher attempted to examine the existing laws enacted to tackle money laundering to assess their adequacy or otherwise. Subsequently, the researcher critically analyzed the Ethiopian money laundering framework in comparison with internationally accepted standards.

Accordingly, the study revealed that the Ethiopian law promulgated to fight money laundering was not fully-fledged and does not go in line with some internationally accepted principles as proposed by international initiatives. In addition, it was indicated that the law concerning KYC requirements, CTR, STR and other preventive measures suffer loopholes and such gaps create a fertile ground for money launderers to exploit the banking system. In conclusion the researcher acknowledged the remarkable progress made by the country in fighting money laundering activities while suggesting that provisions regarding confiscation, corruption and terrorist financing nexus with money laundering and the insufficiency of the anti-money laundering law in relation to banking sector needs reconsideration.

On the contrary, another researcher Ayele Yitayew in 2014 on money laundering, Commercial Banks have been taking their responsibilities in combatting money laundering or terrorist financing compliance preventive measures and opportunities are obtained following the success of banks responsibilities. However, Ayele identified some challenges within cashed- society, difficulty of PEPs and CDD without national identification card, banking technology infrastructure, AML/CTF costs, and lack of awareness in media about AML/CTF.

2.3. Conceptual Framework from Literature Review

Conceptual frame work



CHAPTER THREE

RESEARCH METHODOLOGY

The following are the methodologies used to study the AML/CFT challenge and practice in Ethiopian commercial Banks.

3.1. Research Approach

The research approach is both qualitative and quantitative research. Quantitative approach of doing research was employed because, quantitative research answers questions through a controlled deductive process allowing for the collection of numerical data, the prediction, the measurement of variables, and the use of statistical procedures to analyze and develop inferences from the data.

In addition, Qualitative research is an approach for exploring and understanding the meaning of individuals or groups ascribe to a social or human problem. Researchers are interested in gaining a rich and complex understanding of people's experience and not in obtaining information which can be generalized to other larger groups.

Thus the researcher applied qualitative research method to analyze the primary data obtained through interview method of data collection.

3.2. Research Design

The study basically follows descriptive research method which dwells by describing the current state of affairs as it exists at present .In Descriptive study both quantitative and qualitative methods are used to analyze the data collected. Thus, the study tries to describe practices and challenges toward effective implementation of AML/CFT as per regulatory requirements and international standards.

Therefore, survey approach was utilized to provide descriptive details to obtain a better understanding of the AML/CFT practice of commercial banks in Ethiopia. Survey approach is mostly used in business and management researches to answer questions WH questions and associated with explanatory and descriptive research types (Creswell, 2012).

3.3. Study Area

Currently head quarters of all private commercial banks and state owned banks are located at the capital city, Addis Ababa. The Department that is responsible for compliance matters specifically AML/CFT is located at the Head Offices of the respective banks. Therefore, the study conducted by providing questionnaires to staff members involved in compliance management at head offices level using survey design with structured self-administered questionnaires.

3.4. Population and Sample Design

The study focuses on the commercial banks since the AML/CFT practice is being implemented only in the banking sector .Hence, financial institutions like Insurance companies, Micro finance institutions, Saving and credit cooperatives, Capital goods financing companies do not fully implement the AML/CFT requirements and there is limited awareness and implementation on DNFBPs namely casinos(lotteries in Ethiopian case) real estate agents, accountants, lawyers , notaries public trust service providers and vehicle dealers would not be incorporated in this study.

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

In Ethiopia there are sixteen private and one state owned commercial banks operating in the country, the researcher included all these banks in the study group, since the members of the compliance staff regarding AML/CFT are less than one hundred i.e 74, questionnaires were distributed to all commercial banks compliance staff.

Table 1. Population of the Compliance Staff Members of Commercial Banks

S/N	Name of Bank	Total # of Compliance Staff	S/N	Name of Bank	Total # of Compliance Staff
1.	Comm. Bank of ETH	**6**	10.	Berhan International Bank	**3**
2.	Awash Bank	**3**	11.	Buna International Bank	**4**
3.	Dashen Bank	**4**	12.	Zemen Bank	**9**
4.	Oromia International Bank	**5**	13.	Abay Bank	**4**
5.	Oromia Co-Operative Bank	**6**	14.	Nib International Bank	**5**
6.	United Bank	**2**	15.	Addis International Bank	**3**
7.	Abyssinia Bank	**7**	16.	Enat Bank	**3**
8.	Lion International Bank	**4**	17.	Debub Global Bank	**3**
9.	Wegagen Bank	**3**		**Total Population**	**74**

3.5. Types of Data and Tools of Data Collection

Information has been gathered from both the primary and secondary source of data. The primary data extract information directly from Commercial Banks and EFIC through cross sectional survey in the form of structured questioner and interviews so that their awareness, understanding and compliance will be examined.

Whereas the secondary data include FATF's legal documents, such as recommendation, annual reports, Guidance, Evaluation Reports, Research papers, etc. banks policies and procedures, and other relevant documents, banking supervision documents of the Basel Committee, Websites, proclamations, legal documents and directives was used as a major source of secondary data.

3.6. Data Collection Instruments

Primary data was collected through close ended questionnaires and was distributed to respondents who are involved in compliance management. These include Risk and compliance Directors, Compliance management Managers and Senior compliance mgt officers working directly on anti-money laundering and combating of terrorism financing. In addition structured interviews have been distributed to a designated person of Ethiopian Financial Intelligence Center to triangulate the distributed questionnaires.

The close ended questions have been designed using Likert categorical scale to measure respondents' attitude towards the Challenges and Practices of AML/CFT in Ethiopian Commercial Banks where: Strongly Agree = 5; Agree = 4; Neutral = 3; Disagree = 2 and Strongly Disagree = 1.The structured questionnaires developed using the 5-point Likert Scale due to the fact that each variable or topic comprises series of questions which fit with the mere purpose of using rating scale, that is, it allows respondents to express both the direction and strength of their opinions about a given topic (Catherine, H.2000).

3.7. Validity and Reliability

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

3.7.1. Validity

Items in the questionnaire had been prepared using a five point scale multiple questions. In order to ensure validity of the items, my advisor and compliance managers of two banks have examined the questionnaire before it was distributed to check content validity.

3.7.2. Reliability

Internal consistency of items incorporated in the questionnaire has been distributed for six compliance management staffs of two banks and checked by using Cronbach's Alpha to explain the respondent level of awareness regarding of the questions. Mean of each variable was computed and then the reliability was checked based on the means.

Table 2 Reliability Statistics

Reliability Statistics

Factors under study	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
AML/CFT policies and procedures	.915	.957	10
Preventive Measures	.952	.978	8
The AML/CFT practice	.895	.897	14
AML/CFT Implementation Challenges	.819	.849	16
All variable Average	.895	.920	48

3.8. Data Analysis

Quantitative Data Analysis

The data have been collected from survey questionnaire thoroughly coded and checked for consistency and entered into SPSS version 20 spreadsheet. Descriptive statistics has been employed to analyze the data and the results tested with non-parametric tests of significance.

Qualitative Data Analysis

The researcher summarized the responses of concerned respondents and describe challenges and practices of the banks to the effective implementation of AML/CFT thereby seeking answers to the research questions and achieving envisaged objectives.

3.9. Ethical Consideration

The research respondents' willingness to fill the questionnaires were respected and verbal consent was taken while distributing the questionnaire papers. The individuals name were not be mentioned in the research, and yet any information in this study about the banks remained confidential. The questionnaire had covering letter as a preamble that brief the purpose of the study.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter focuses on the results of the study and discusses legal documents, interview conducted and questionnaire administered. Accordingly the study results, discussion, conclusion and recommendations are presented.

4.1. Results

4.1.1. Profile of Respondents

The demographic distribution of respondents based on sex, age, educational status, and year of service in banking industry.

Table 3 Demographic Distribution

No table of figures entries found.		Frequency	Percent
Gender	Female	24	35
	Male	45	65
	Total	69	100
Age	18-25	1	2
	26-35	45	65
	36-45	20	29
	46 and above	3	4
	Total	69	100
Qualification	Masters & above	38	55
	First Degree	31	45
	Diploma & Certificate	-	-
	Total	69	100
Year of Service	< 5 years	17	25
	6-10 years	28	41
	11-30 years	24	35
	>30 years	-	-
	Total	69	100

Source; Survey Outcome

In terms of sex, Table 4.1.Shows that 35 % of the respondents are females while the male respondents were 65%.Though the ratio is not proportional both categories of the respondents have participated. Based on age, the table illustrates 65% of the respondents are between the ages of 26 to 35; 29% of them are between 36 to 45; 4% of the respondents were above 46 and the remaining 2% are between 18 to 25 years. The other relevant demographic characteristic is educational status that helps to assess the compliance management practice. The table illustrates that 55 % of the respondents are either Masters holders or above while the rest 45% were first degree holders.

In terms of year of service in banking industry, about 76 % of the respondents reported to have served in the banking industry for more than 5 years, of which 41% were serving 6-10 years, 35% of employees having over 10 years of work experience in the industry. On the other hand, about 25 percent of the respondents had one to five years of banking experience.

The study showed that the respondents have adequate year of experience as well as good educational back ground which implies that they are equipped with the necessary knowledge to deal with compliance management.

The questionnaires were distributed in person to seventy two employees (whose positions are related to AML/CFT). Out of 72 questionnaires 69 were completed and collected (see Table 4.2 below). After data collection analysis is made on the valid number of responses.

Table 4 Survey Response Rate

Respondents	Size
Population size	74
Questionnaire distributed	72
Completed and Returned questionnaire	69
Response Rate	95.83%

Source; Own computation 2019

4.1.2. AML/CFT Practices and Challenges of Commercial Banks: Analysis of Close Ended Questionnaire

A structured questionnaire (Appendix II) was distributed to seventy two Risk and compliance Directors, Compliance Managers and Compliance officers of all private commercial banks and one state owned bank operating in Ethiopia, in exception of United Bank which has two compliance officers as the bank is not willing to participate in the study.

To triangulate the findings, the study conducted personal interview with FIC Directorate, who has experience with analysis, investigation and prosecution of the related investigation files.

4.1.2.1. Analysis of data collected from respondents

To interpret the mean score, the study adopted the interpreting procedure developed by Chaihiran wattana & Nookua (2010) as shown in Table 4.3 below.

Likert scale Interval points

$$\text{Interval} = \frac{\text{The highest Score} - \text{The lowest Score}}{\text{Number of Interval}}$$

$$\text{Interval} = \frac{5-1}{5} = 0.8$$

The average score (mean) obtained from each item was interpreted into degree of the factors as shown below

Table 5 Likert Scale points

Likert Scale	Average Score	Rating
Strongly agree	Average Score = 4.21 – 5.00	Very High
Agree	Average Score = 3.41 – 4.20	High
Neutral	Average Score = 2.61 – 3.40	Neutral
Disagree	Average Score = 1.81 – 2.60	Low
Strongly Disagree	Average Score = 1.00 – 1.80	Very Low

Source: Chaihiran wattana & Nookua (2010)

4.1.2.2. AML/CFT Policies and Procedures

Table 6 Mean and Standard Deviation of AML/CFT policies and procedures

AML/CFT Policies and Procedures	Mean	SD
There is effective Compliance program, policy and procedure approved by the bank’s board	4.46	.778
Written policy framework is adopted stating the bank's commitment to comply with AML/CFT obligations in accordance with applicable proclamations and laws and international standards.	4.48	.632
Adequately resourced and independent audit function is designated to test the effectiveness of the compliance program against international standards and applicable proclamations and laws.	3.77	1.126
Sufficient resources are allocated for the proper function of AML/CFT compliance.	3.74	1.009
Procedure is in place to identify, assess and understand money laundering and terrorist financing risks in the bank.	4.29	.787
Internal controls and procedures are in place in order to prevent criminals using the bank's facilities for money laundering and terrorist financing	4.23	.730
Written policies are developed documenting the process required to prevent, detect and report suspicious transactions.	4.50	.532
Record retention procedures are in place in accordance with applicable laws.	4.45	.697
Policy, manual and procedure are in place to manage and mitigate risks that have been identified.	4.41	.696
Periodic audit to verify the effectiveness of the compliance program is Formulated and being conducted.	4.05	1.012
Grand Mean	**4.23**	**V. high**

Source: Own Computation 2019

The respondents’ feedback shows that banks have a compliance program, policy and procedures approved by their respective bank‘s board (mean = 4.46 and SD = 0.778) ,procedure is in place to identify, assess and understand money laundering and terrorist financing risks (mean = 4.29 and SD= 0.787), written policy framework is adopted stating the bank’s commitment to comply with Anti-Money Laundering and Counter Financing of Terrorism obligations (mean = 4.48 and SD= 0.632), record retention procedures are in place in accordance with applicable laws (mean = 4.45 and SD = 0.697).

Moreover, internal controls and procedures are in place which helps to prevent criminals using the bank's facilities for money laundering and terrorist financing purposes (mean =4.23 and SD 0.730), periodic audit is formulated and being conducted to verify the effectiveness of the compliance program (mean = 4.05 and SD= 1.012).

In addition, written policies are developed to document the process required to prevent, detect and report suspicious transactions (mean = 4.50 and SD = 0.532) and policy, manual and procedure are in place to manage and mitigate risks that have been identified (mean = 4.41 and SD = 0.696).

Respondents also indicated that commercial banks have allocated sufficient resources for proper function of AML/CFT compliance (mean = 3.74 and SD 1.009). Finally, it was indicated that the commercial banks have adequately resourced and independent audit function designated to test the effectiveness of the compliance program implemented in their respective banks (mean = 3.77 and SD = 1.126). Furthermore, 33.2 % of respondents either disagree or have no knowledge for the allocation of sufficient resources for the proper function of AML/CFT.

Similarly 33.3% of respondents either disagree or haven't knowledge for the availability of adequately resourced and independent audit function designated to test the effectiveness of the compliance program. Besides, 21.7% of respondents disagreed or are neutral to the periodic audit to verify the effectiveness of the compliance program formulated and being conducted. (Appendix I)

Overall, the arithmetic mean score for each measure ranges from 4.48 to 3.74. This implies that the Ethiopian commercial banks developed policies and procedures to identify assess and understand ML and TF.

4.1.2.3. Preventive Measures

Table 7 Mean and Standard Deviation of ML/TF preventive measures

Preventive Measures	Mean	SD
The board is periodically monitoring the compliance risk exposure of the bank and provide high level direction	3.62	1.086
A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank‘s AML/CFT compliance program.	3.98	1.077
Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.	3.78	1.174
The bank conducts risk based assessment on its customer base and their transactions.	3.89	1.121
Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.	4.12	.922
Automated screening tool is in place to identify Politically Exposed Persons (PEPs).	2.69	1.498
Customer due diligence (CDD) procedures are carried out on customers on an ongoing basis	4	.992
KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents	4.05	.889
Grand Mean	**3.76**	**High**

Source: Own computation 2019

Considering preventive measures being implemented in commercial banks the analysis shows that regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of compliance program (mean = 4.12 and SD = 0.922), KYC procedure is conducted besides AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents (mean = 4.05and S.D = 0.889). Likewise, customer due diligence procedures are carried out on customers on ongoing basis (mean = 4 and SD = 0.992.)

The board is periodically monitoring the compliance risk exposure of their respective bank and provide high level direction (mean = 3.62 and SD = 1.086), however, 11 persons disagree with the existence of periodic monitoring of board while 13 persons have no knowledge about this, the result is affected by the response of employees who have less experience and haven’t idea about the duty of board and the state owned bank employees did not know the periodic monitoring of the boards. (Appendix I).

On the other hand the respondents reply that compliance officer is designated at a senior management level to oversee the AML/CFT activities with the relevant competence and authority (mean = 3.98 and SD = 1.077), risk based approach is adopted to assess the bank's exposure to ML/TF (mean = 3.78 and S.D = 1.174) and banks conduct risk based assessment on its customer base and their transaction (mean =3.89 and SD = 1.121).

However, as can be seen in the above table, severe deficiencies were shown in terms of availability of an automated screening tool to identify politically exposed persons which have a (mean = 2.69 and SD = 1.498) and 52% of the respondents reply the automated tool is not available, while 13% have no awareness about it.

4.1.2.4. The AML/CFT Practice

Table 8. Mean and Standard Deviation of AML/CFT practice

The AML/CFT practice	Mean	SD
Automated compliance system is in place to detect and report suspicious transactions and customers	2.86	1.513
The bank refrains from establishing relationship with shell banks and maintaining anonymous accounts.	4.46	.884
The bank identifies and assesses potential money laundering and terrorist financing risks that may arise due to development of new products, business practices and technologies.	3.95	.991
Know your customer (KYC) procedures are properly implemented before establishing business relations, whenever doubt exists about the adequacy of previously obtained records and whenever suspicion of money laundering and financing of terrorism arises.	4	1.014
Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions to/from high risk jurisdictions.	3.86	1.083
Customers are screened against international SDN sanctioned lists such as; UN and OFAC before establishing business relationship and on an ongoing basis.	3.91	1.142
Accurate originators' and beneficiaries' information is captured during local and international wire transfer.	3.92	1.047
Relevant customer and transaction records are kept as required by applicable laws	4.39	.694
The bank fully cooperates with international organizations and correspondent banks towards AML/CFT endeavors.	4.43	.652
Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers	4.42	.847
Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees	4.33	.868
New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees	4.14	.941
Employees are prohibited from disclosing (Tipping-off) the fact that a suspicious transaction or related information is being filed to concerned authorities.	4.24	1.005
Senior mgt is effectively implementing policies and procedures to manage compliance risk throughout the bank	3.91	1.01
Grand Mean	**4.05**	**High**

Source: Own computation 2019

The responses regarding the AML/CFT practice revealed that high scores are seen in the following tasks: know your customer (KYC) procedures are properly implemented before establishing business relations whenever doubt exists about the adequacy of previously obtained records and whenever suspicion of money laundering and financing of terrorism arises (mean = 4 and S.D of 1.014) ,new AML/CFT related laws or changes to the existing policies or practices are timely communicated to the concerned employees (mean = 4.14 and S.D = .941) and communicating existing AML/CFT policies and procedures to employees (mean = 4.33 and S.D = 0.868).

Regular training are provided to concerned employees on prevention of ML/TF alongside methods of identification and reporting of suspicious transaction and customers (mean = 4.42 and S.D = 0.847), relevant customer and transaction records are kept as required by applicable laws (mean = 4.39 and S.D = 0.694), employees are prohibited from disclosing (Tipping-off) the fact that a suspicious transaction or related information is being filed to concerned authorities (mean = 4.24 and S.D = 1.005).

To sum up the result shows that banks are fully cooperative with international organizations and correspondent banks towards AML/CFT endeavors (mean = 4.43 ,SD.= 0.652) and refrain from establishing relationship with shell banks and to maintain anonymous accounts (mean score = 4.46 , SD = 0.884)while there is poor result shown with regard to the presence of automated compliance system to detect and report suspicious transactions and customers (mean = 2.86,SD = 1.513) and 56.5% of the respondents disagree to its availability.

Based on the above results, acceptable results are shown in identification and assessment of potential ML/TF risks that may arise due to development of new products, business practices and technologies (mean = 3.95 and S.D = 0.991) , in conducting enhanced customer due diligence on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions to/from high risk jurisdictions (mean = 3.86 and S.D of 1.083), screening customers against international SDN sanctioned lists such as; UN and OFAC before establishing business relationship and on an ongoing basis (mean = 3.91 and S.D = 1.142), in capturing accurate originators' and beneficiaries' information during local and international wire transfer (mean = 3.92 and S.D = 1.047) as well as in effectively implementing policies and procedures to manage compliance risk by senior management (mean = 3.91 and S.D = 1.01).

4.1.2.5. AML/CFT Implementation Challenge

Table 9 Mean and Standard Deviation of AML/CFT challenge

AML/CFT Implementation Challenge	Mean	SD
Tone at the top is not set and adequate emphasis is not given by senior management towards instilling strong AML/CFT culture across the bank.	3.02	1.305
The Presence of high percentage of population that is without access to financial services and cash based economy.	4.02	.999
The presence of unregulated and unlicensed money and value transfer services	4.04	1.076
Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult	3.75	1.142
Absence of National ID card hinders effective KYC procedures.	4.47	.759
List of Politically Exposed Persons and local sanction lists are not provided by concerned regulatory bodies.	4.20	1.243
Lack of technology to enhance the AML/CFT activities.	4.18	1.101
Sufficient resource is not allocated to implement devised compliance program	3.86	1.096
Competent staffs are not assigned to oversee the compliance activities	3.11	1.388
AML/CTF awareness in media is lower in the country	4.49	.699
All domestic stakeholders in the fight against ML/TF is not actively involved	4.17	.890
Lack of EFIC and NBE support in AML/CFT capacity building	3.28	1.27
Board and senior mgt not ensure the effective implementation of the proclamation in periodic manner	3.98	.865
Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country	3.69	1.00
EFIC does not conduct regular typology exercises covering various predicate offences and effective supervision in the banking sector	4.05	.937
The cooperation and the coordination of law enforcement agency and regulatory bodies on preventing and suppressing of money laundry and terrorist financing are low.	3.34	1.21
Grand Mean	**3.85**	**High**

Source: Own computation 2019

Based on the respondents response, the results show that there are AML/CFT implementation challenges i.e lower AML/CFT awareness in media of the country is the primary challenge to combat ML/TF (mean = 4.49 and S.D = 0.699) ,absence of National ID card which hinders banks to make effective KYC procedures ranked in second position with (mean = 4.47 and SD = 0.759) and lack of list of Politically Exposed Persons and local sanction lists which have to be provide by concerned regulatory bodies (mean = 4.20 and S.D = 1.243), lack of technology to enhance the AML/CFT activities (mean = 4.18 and S.D = 1.101) and inactive involvement of domestic stake holders in fighting ML/TF (mean = 4.17 and S.D = 0.890) are the other major challenges that banks face.

Moreover, challenges are observed in lacking to conduct regular typology exercises covering various predicate offences and effective supervision in the banking sector by EFIC (mean = 4.05 and S.D = 0.937) and the presence of high percentage of population without access to financial services and cash based economy (mean = 4.02 and S.D = 0.999).

In addition to the above, the following challenges revealed within the bank are noted these include: not setting tone at the top and absence of adequate emphasis towards installing strong AML/CFT culture across the bank by senior management (mean = 3.02 and S.D = 1.305) as well as lack of board and senior management to ensure the effective implementation of the proclamation in periodic manner (mean = 3.98 and S.D = 0.865) ,difficulty to integrate AML/CFT requirements with business objectives, clients, products and processes (mean 3.75 = and S.D = 1.142), insufficient resource allocation to implement devised compliance program (mean = 3.86 and S.D = 1.096), not to assign competent staffs to oversee the compliance activities (mean = 3.11 and S.D = 1.388).

Furthermore, challenges of commercial banks related to regulatory organs to implement AML/CFT include ,lack of support by supervisory organs (NBE and EFIC) in AML/CFT capacity building (mean = 3.28 and S.D = 1.27), low level of cooperation and coordination of law enforcement agency and regulatory bodies on preventing and suppressing of money laundry and terrorist financing (mean = 3.34 and S.D = 1.21) and absence of law that limit physical possession of cash which encourages illicit deposit or use of ill-gotten cash in the country (mean = 3.69 and S.D = 1.00), the presence of unregulated and unlicensed money and value transfer services (mean = 4.04 and SD = 1.076) .

4.2. Discussions

Money laundering and terrorist financing can harm the soundness as well as the stability of a financial sector in multiple ways. The adverse consequences generally described as reputational, operational, legal and concentration risks. Each has specific costs:

Loss of profitable business, liquidity problems through withdrawal of funds, termination of correspondent banking facilities, investigation costs and fines, asset seizures, loan losses and declines in the stock value of financial institutions.(Paul, Scott, 2006).

Banks and their account holders are protected when effective AML/CFT regimes are in place. Public confidence in financial institutions, and hence their stability, is enhanced by sound banking practices that reduce financial risks to their operations.

The following are drawn as discussion points based on the results made on primary and secondary data.

4.2.1. Availability of AML/CFT Policies and Procedures

According to (FATF, 2003) 40+9 recommendations and FIC directive 01/2014 financial institutions should develop AML/CFT compliance programs including Manuals, Policies, Controls and Procedures to guide their compliance efforts and to ensure the diligent implementation of their program and an audit function to test the system. In this study the grand mean score of 4.23 (V. high) shows that all the studied Commercial Banks have AML/CFT policies, procedures and control mechanisms.

This benefited banks to ensure that the products and services of the bank are not used to launder the proceeds of crime and that all of the Bank’s staff are aware of their obligations and the need to remain vigilant in the fight against money laundering/terrorist financing. The document also provides a framework to comply with applicable laws, regulatory guidelines specially related with detection and reporting of suspicious activities in addition this helps to avoid cost of noncompliance.

4.2.2. Preventive Measures

FATF (Recommendation 5-25) and FIC directive 01/2014 states that financial institutions should prevent the occurrence of money laundering and financing of terrorism in the first instance and formulated the preventive mechanisms to be applied by financial institutions. In this study, ML/TF preventive measures being implemented in commercial banks are shown to be effective with a grand mean of 3.76, (high).

An effective AML regime is a deterrent to criminal activities. Such a regime makes it more difficult for criminals to benefit from their acts and reduces the potential that the institution could experience losses from fraud. (Paul Schott, 2006).

However, automated screening tool in not available to identify PEP's with a mean value of 2.69, this might bring, noncompliance, reputational and operational risks, that is in contrast to FATF recommendation as well as FIC Directive 01/2014, which states "Financial institutions put in place appropriate risk management systems to determine whether a potential customer or existing customers or the beneficial-owner is a Politically Exposed Person (PEP)".

4.2.3. The AML/CFT practice

FATF Recommends that not only impose AML-CFT preventative measures but also make sure that the requirements are implemented appropriately. In this study, AML/CFT practice among the studied Ethiopian Commercial banks with grand mean score is 4.05 (high) which shows that there is good practice in combating ML/TF in Ethiopian Commercial Banks.

However; gaps are identified in automated compliance system to detect and report suspicious transaction, while the Wolfsberg principle stated that, financial institutions should have appropriate automated system in place to provide identification of unusual activity or transactions. To sum up, an automated system supports for surveillance and transaction monitoring.

4.2.4. AML/CFT Implementation Challenge

Based on the study, the results 3.85(high) shows that there are AML/CFT implementation challenges among the studied commercial banks in applying AML/CFT regime .The NRA, 2016 also reveals that the country's economy is cash based and this provides opportunities for criminals to easily launder money and finance terrorism, ID's are provided by various government institutions and do not have enough information to identify customers, besides the AML/CFT process are not automated.

The lack of such elements, or significant weaknesses and shortcomings in implementing AML/CFT, may significantly hinder the implementation of an effective AML/CFT regime, which ultimately may bring noncompliance risks like penalties, sanctions, reputational and operational loss.

4.3. Analysis of Interview Conducted with FIC Official

In order to meet the outlined objectives of the study, interview was conducted with Commander Tesfaye Gebregziabher, Directorate Director of Financial Transactions Examination at Financial Intelligence Center of Ethiopia. A total of eight questions were forwarded of which results are presented below.

The first question forwarded enquired whether the FIC, according to its mandate and responsibility, examines the AML/CFT practice of banks in accordance with applicable laws by conducting regular supervision and communicate results promptly. However, it was indicated that the EFIC transfer its power to NBE to prudentially supervise commercial banks for the last two years. Accordingly, as a regular duty NBE periodically select banks on risk based approach and made onsite and offsite supervision on AML/CFT practice and communicate them and informs FIC through copy.

In addition, discussions are made with presidents and directors of the respective banks on findings and while there are noncompliance the necessary actions will take including penalties.

The second question was concerned with whether the FIC communicate relevant statistics related to ML/TF trends, investigations and prosecutions. Thus, it was discussed that the Center maintains all relevant statistics but does not communicate the trends and results of investigations and prosecutions to reporting organs or the public in general owing the sensitivity and confidentiality nature of the cases. This is in contrast to ESMAALG recommendation which insists on communicating statistics of such to raise awareness of money laundering and terrorist financing within the various stakeholders and the general public. However, it was indicated that there is a continuous awareness creation sessions towards suppression ML/TF.

The third question requested the center to rate the existing AML/CFT practice of commercial banks against international standards and applicable laws. Consequently, it was revealed that the practice being implemented in the banking industry "is below expectation and almost zero" said the director in meeting national requirements let alone international best practices.

Accordingly, severe deficiencies exist in areas of suspicious transaction reporting (STR), implementing know your customer (KYC) and customer due diligence (CDD) measures, violating confidentially code by tipping off customers after reporting suspicious transaction and intentionally disguising suspicious transactions for personal gain/protection of their customers and number of suspicious transactions reported by banks decreased from time to time . However, there is better practice when we compare the banking sector with other financial institutions or other stakeholders.

The fourth question enquired that what can be FIC suggest to policy makers to enhance the threat of ML/TF and the respondent suggested that while reporting organs (financial institution and DNFPS) produce policies and procedures as well as guidelines that should protect their organization as well as the country from criminals, promote to enhance training, support to identify risks, promotes transparency, enables how to identify suspicious transaction and report and after all establish a policy that will help the institution not to use by criminals.

The fifth question forwarded was about the frequency of onsite visit per year on Commercial banks. Accordingly, as mentioned in the above response number one the FIC transfer some responsibilities to NBE and currently the NBE supervise commercial banks based on their risks and the compliances of the banks.

The sixth question requested the center is how the FIC evaluate Ethiopia's cooperation and coordination with national and international organizations and it was revealed that there was committee at national level but not actively involved and does not work as a committee rather performs their own duty .However; currently it has established a new committee with good hopes.

Regarding the international cooperation 17 items were listed in action plan that have two be rectified within two years and the center go through to address this compliance deficiencies and after the onsite visit of the mutual group the country will be deleted from black list.

On the other hand, committees are established from different organs to rectify the recommendations given by the national risk assessment committee.

The seventh question forwarded to the Centre was about how they evaluate the level of other government institutions and the general public awareness on the bad consequences of ML and TF. Consequently, it was revealed that there is very low level of awareness on general public. However, when we see the other government institutions we categorize them in to three groups. The first one is the competent authorities such as Revenue and Customs, Federal and Regional police, Ethiopian National court , Anti-corruption and currently National Intelligence and Security Service take trainings and have awareness on the area ,though they aren't on the same level and focused on the predicate offences rather than ML/TF.

The second one is regulatory bodies such as National Bank of Ethiopia, Accounting and Audit board, Ministry of Finance and Economic Development etc have better awareness on the area while other institutions office of Ministries like Ministry of Education, Ministry of transport and Communication, Ministry of Justice have not knowledge about this and were not took trainings given by FIC.

Finally, question forwarded was about the various challenges facing the FIC towards instilling a robust AML/CFT regime in the country and the banking sector. Accordingly, it was outlined that there is low level of awareness among the concerned government organs regarding the various harmful impacts of money laundering and financing of terrorism and adequate emphasis has not been given to the fight against ML and TF resulting in lack of coordination between the center and concerned law enforcement organs, competent authorities does not give the necessary emphasis for ML/TF rather to predicate offences while regulatory bodies shows unwillingness to do these responsibility and reporting organs misconception about loss of customers. In addition, the endeavor to instill a robust AML/CFT has not yielded a satisfactory response from the general public regardless of continuous awareness creation efforts.

Considering the challenges arising from the banking sector, it was revealed that there exists low level of awareness among top management of banks and misconception about loss of customer base and due to implementing AML/CFT measures leading to a weak compliance across the industry.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary of Findings

The aim of the thesis is to assess challenges and practices of Anti-Money Laundering and Combating of Terrorism Financing-the case of the Ethiopian Commercial Banks. The study focuses on the preventive mechanism used in Commercial Banks of Ethiopia, the extent of how commercial banks comply to the AML/CFT practice, the policies that guide AML/CFT and the challenges of implementing effective Anti-Money Laundering and Financing of terrorism practices in Ethiopian commercial Banks.

The study yielded a set of results based on compliance staff members' evaluation of the practices and challenges of their own bank.

The results in general indicated the existence of effective AML/CFT policies and procedures that guided each commercial bank to implement effective AML/CFT regime according to the compliance requirements. These include, written policy adoption in accordance with applicable laws and international standards, placing comprehensive AML/CFT framework, which include necessary resources, designation of compliance person and independent audit function to test effectiveness of the program are among the measurements of the analysis.

After evaluating the existence of the necessary resources and frameworks, analysis is made whether banks put in place the preventive mechanism to safeguard their banks from launderers and terrorists, and respondents give high score to regular supervision on branches for their effective implementation, and conducting KYC before establishing business relationship with customers as well as correspondent banks and the grand result shows the existence of preventive mechanisms.

Results showed that commercial banks are practicing the AML/CFT and high scores are shown in communicating existing policies and procedures as well as new laws and when there are changes to the existing policies, keeping records as required by international applicable laws and banks responded that they refrains from establishing relationship with shell banks, though there are various challenges to implement effective AML/CFT as required by FATF (40+9) recommendations.

This study indicated absence of national ID and list of PEP's as well as local sanction lists to identify and verify customers before establishing relationship with them, lower level of awareness in media, public and stakeholders, lack of technology to enhance the AML/CFT activities are so challenges.

Generally, there is acceptable compliance culture in the banking industry which results from training and awareness creation and the extent of commercial banks compliance is better when compared with other financial institution and DNFPS based on NRA 2016.

However, according to the interview, deficiency exists in the Anti-Money Laundering and Counter Financing of Terrorism implementation of commercial banks in areas such as suspicious transaction reporting (STR), implementing know your customer (KYC) and customer due diligence (CDD) measures and violating confidentiality compared to regulatory requirements.

5.2. Conclusion

It is generally agreed that establishing a comprehensive and well-designed money laundering and Terrorism Financing prevention frame work is pivotal to an effective AML/CFT practice. The findings in this study revealed that the Ethiopian commercial banks take their responsibilities in money laundering and terrorist financing compliance measures. The mean score of each variable measure is significantly high.

The assessment shows that banks have effective compliance program, policies and procedures which is approved by the board. Sufficient resources are allocated for the proper function of compliance management; in addition independent audit function is designated to test the effectiveness of the compliance program.

The analysis of AML/CFT preventive measures showed that banks placed preventive mechanism. However, there is a limitation on placing an automated screening tool to identify political exposed persons (PEPs), blacklisted customers and to detect and report suspicious transactions and customers.

Furthermore, the study shows besides adopting policies and procedures and placing preventive mechanisms, banks are practicing the AML/CFT preventive mechanisms to protect themselves from criminals, launderers and terrorists with the exception of screening transactions and customers through automated system.

Finally, lack of awareness, absence of national ID, lack of list of PEP's, lack of AML/CFT technology and inactive involvement of stakeholders are major challenges to implement the AML/CFT measures as expected by the national as well as international standard setters.

5.3. Recommendation

The study offers the following general recommendations in order to strengthen the AML/CFT regime of Ethiopian financial institution, specifically for the banking sector.

EFIC, NBE and other responsible organs of the country have to focus their efforts on the most fundamental tasks and main challenges so that banks need to give utmost priorities within their overall plans to promote effective AML/CFT regime and to remove the country's name from blacklist, and enhance better correspondent banking relationship, avoid unnecessary screening and confirmation cost and attract foreign direct investment. Such as, by constructing cash less society, enhancing national ID, conduct regular typology exercises covering various predicate offences, creating awareness among the stakeholders and the public in general.

In addition, authorities and reporting organs should co-operate and lend expertise regularly or up on request with other domestic judicial or law enforcement authorities in money laundering investigations and prosecutions.

The country should take all possible measures to ensure that it does not provide safe havens for individuals charged with the financing of terrorism and money laundering.

Finally, there is a need to understand that money laundering is not only a problem to the authorities or reporting organs but also to the public. Therefore, public awareness on the effects of money laundering should be done through the media and public events. Moreover, there is a need for proper exchange of information to facilitate the elimination of money laundering and addressing the countries deficiencies to rescission from the FATF statement.

5.4. Limitation of the Study

Lack of adequate documents about AML/CFT practice in the country related to the proposed study and unwillingness to participate in the study by some banks are the limitations that the researcher faced. Therefore, the later one was managed by approaching majority of the banks through connections.

5.5. Direction for Future Researchers

As this study is limited on Ethiopian Commercial Banks, further research is needed on other financial and nonfinancial sectors which are vulnerable to money laundering and terrorist financing. .

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APPENDIX I:

Key: SA – Strongly Agree, A – Agree, N – Neutral, DA – Disagree, SD – Strongly Disagree, Miss. – Missing

Frequency table of Responses for Questions related to AML/CFT policies and procedures

S/N	AML/CFT Policies and Procedures	Frequency (%) of responses					
		SA	A	N	D	SD	Miss
1	There is effective Compliance program, policy and procedure approved by the bank's board	42 (60.9%)	19 (27.5%)	6 (8.7%)	2 (2.9%)		
2	Written policy framework is adopted stating the bank's commitment to comply with AML/CFT obligations in accordance with applicable proclamations and laws and international standards.	38 (55.1%)	26 (37.7%)	5 (7.2%)			
3	Adequately resourced and independent audit function is designated to test the effectiveness of the compliance program against international standards and applicable proclamations and laws.	21 (30.4%)	25 (36.2%)	11 (15.9%)	10 (14.5%)	2 (2.9%)	
4	Sufficient resources are allocated for the proper function of AML/CFT compliance.	16 (23.2%)	30 (43.5%)	13 (18.8%)	9 (13.0%)	1 (1.4%)	
5	Procedure is in place to identify, assess and understand money laundering and terrorist financing risks in the bank.	32 (46.4%)	27 (39.1%)	8 (11.6%)	2 (2.9%)		
6	Internal controls and procedures are in place in order to prevent criminals using the bank's facilities for money laundering and terrorist financing	27 (39.1%)	32 (46.4%)	9 (13.0%)	1(1.4%)		
7	Written policies are developed documenting the process required to prevent, detect and report suspicious transactions.	36 (52.2%)	32 (46.4%)	1 (1.4%)			
8	Record retention procedures are in place in accordance with applicable laws.	37 (53.6%)	28 (40.6%)	2 (2.9%)	2 (2.9%)		
9	Policy, manual and procedure are in place to manage and mitigate risks that have been identified.	68 (98.6%)	35 (50.7%)	27 (39.1%)	5 (7.2%)	1 (1.4%)	1 (1.4%)
10	Periodic audit to verify the effectiveness of the compliance program is Formulated and being conducted.	28 (40.6%)	26 (37.7%)	6 (8.7%)	9 (13.0%)		

Source: Own Survey, 2019

Frequency table of Responses for questions related to Preventive measures

S/N	Preventive Measures	Frequency (%) of responses					
		SA	A	N	D	SD	Miss
1	The board is periodically monitoring the compliance risk exposure of the bank and provide high level direction	13 (18.8%)	32 (46.4%)	13 (18.8%)	7 (10.1%)	4 (5.8%)	
2	A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank‘s AML/CFT compliance program.	27 (39.1%)	24 (34.8%)	10 (14.5%)	6 (8.7%)	2 (2.9%)	
3	Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.	20 (29.0%)	31 (44.9%)	5 (7.2%)	9 (13.0%)	4 (5.8)	
4	The bank conducts risk based assessment on its customer base and their transactions.	23 (33.3%)	28 (40.6%)	7 (10.1%)	7 (10.1%)	3 (4.3%)	1 (1.4%)
5	Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.	27 (39.1%)	27 (39.1%)	10 (14.5%)	3 (4.3%)	1 (1.4%)	1 (1.4%)
6	Automated screening tool is in place to identify Politically Exposed Persons (PEPs).	12 (17.4%)	12 (17.4%)	9 (13.0%)	15 (21.7%)	21 (30.4%)	
7	Customer due diligence (CDD) procedures are carried out on customers on an ongoing basis	23 (33.3%)	30 (43.5%)	9 (13.0%)	4 (5.8%)	2 (2.9%)	1 (1.4%)
8	KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents	23 (33.3%)	32 (46.4%)	10 (14.5%)	3 (4.3%)	1 (1.4%)	

Source: Own Survey, 2019

Frequency table of responses for questions related to the AML/CFT practice

S/N	The AML/CFT practice	Frequency (%) of responses					
		SA	A	N	D	SD	Miss
1	Automated compliance system is in place to detect and report suspicious transactions and customers	13 (18.8%)	17 (24.6%)	5 (7.2%)	16 (23.2%)	18 (26.1%)	
2	The bank refrains from establishing relationship with shell banks and maintaining anonymous accounts.	43 (62.3%)	20 (29.0%)	3 (4.3%)	1 (1.4%)	2 (2.9%)	
3	The bank identifies and assesses potential money laundering and terrorist financing risks that may arise due to development of new products, business practices and technologies.	23 (33.3%)	28 (40.6%)	11 (15.9%)	6 (8.7%)	1 (1.4%)	
4	Know your customer (KYC) procedures are properly implemented before establishing business relations, whenever doubt exists about the adequacy of previously obtained records and whenever suspicion of money laundering and financing of terrorism arises.	24 (34.8%)	30 (43.5%)	8 (11.6%)	5 (7.2%)	2 (2.9%)	
5	Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions to/from high risk jurisdictions.	23 (33.3%)	25 (36.2%)	12 (17.4%)	7 (10.1%)	2 (2.9%)	
6	Customers are screened against international SDN sanctioned lists such as; UN and OFAC before establishing business relationship and on an ongoing basis.	25 (36.2%)	25 (36.2%)	8 (11.6%)	7 (10.1%)	3 (4.3%)	1 (1.4%)
7	Accurate originators' and beneficiaries' information is captured during local and international wire transfer.	23 (33.3%)	29 (42.0%)	7 (10.1%)	9 (13.0%)	1 (1.4%)	
8	Relevant customer and transaction records are kept as required by applicable laws	34 (49.3%)	28 (40.6%)	5 (7.2%)	1 (1.4%)		1 (1.4%)
9	The bank fully cooperates with international organizations and correspondent banks towards AML/CFT endeavors.	35 (50.7%)	30 (43.5%)	3 (4.3%)	1 (1.4%)		
10	Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers	39 (56.5%)	25 (36.2%)	1 (4.4%)	3 (4.3%)	1 (1.4%)	
11	Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees	37 (53.6%)	22 (31.9%)	6 (8.7%)	4 (5.8%)		

12	New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees	30 (43.5%)	22 (31.9%)	10 (14.5%)	5 (7.2%)		2 (2.9%)
13	Employees are prohibited from disclosing (Tipping-off) the fact that a suspicious transaction or related information is being filed to concerned authorities.	37 (53.6%)	18 (26.1%)	10 (14.5%)	2 (2.9%)	2 (2.9%)	
14	Senior mgt is effectively implementing policies and procedures to manage compliance risk throughout the bank	24 (34.8%)	22 (31.9%)	17 (24.6%)	5 (7.2%)	1 (1.4%)	

Source: Own Survey, 2019

Frequency table of responses for questions related to AML/CFT implementation challenge

S/N	AML/CFT Implementation Challenge	Frequency (%) of responses					
		SA	A	N	D	SD	Miss
1	Tone at the top is not set and adequate emphasis is not given by senior management towards instilling strong AML/CFT culture across the bank.	8 (11.6%)	23 (33.3%)	13 (18.8%)	13 (18.8%)	12 (17.4%)	
2	The Presence of high percentage of population that is without access to financial services and cash based economy.	26 (37.7%)	27 (39.1%)	9 (13.0%)	6 (8.7%)	1 (1.4%)	
3	The presence of unregulated and unlicensed money and value transfer services	28 (40.6%)	27 (39.1%)	5 (7.2%)	7 (10.1%)	2 (2.9%)	
4	Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult	21 (30.4%)	24(34.8 %)	13 (18.8%)	8 (11.6%)	3 (4.3%)	
5	Absence of National ID card hinders effective KYC procedures.	42 (60.6%)	20(29.0 %)	5 (7.2%)	2 (2.9%)		
6	List of Politically Exposed Persons and local sanction lists are not provided by concerned regulatory bodies.	42 (60.9%)	14 (20.3%)	2 (2.9%)	7 (10.1%)	4 (5.8%)	

S/N	AML/CFT Implementation Challenge	Frequency (%) of responses					
		SA	A	N	D	SD	Miss
7	Lack of technology to enhance the AML/CFT activities.	34 (49.3%)	25 (36.2%)	3 (4.3%)	3 (4.3%)	4 (5.8%)	
8	Sufficient resource is not allocated to implement devised compliance program	23 (33.3%)	26 (37.7%)	10 (14.5%)	8 (11.6%)	2 (2.9%)	
9	Competent staffs are not assigned to oversee the compliance activities	13 (18.8%)	18 (26.1%)	15 (21.7%)	10 (14.5%)	13 (18.8%)	
10	AML/CTF awareness in media is lower in the country.	39 (56.5%)	27 (39.1%)	2 (2.9%)	1 (1.4%)		
11	All domestic stakeholders in the fight against ML/TF is not actively involved	29 (42.0%)	28 (40.6%)	7 (10.1%)	5 (7.2%)		
12	EFIC and NBE support banks in AML/CFT capacity building	13 (18.8%)	21 (30.4%)	16 (23.2%)	11 (15.9%)	8 (11.6%)	
13	Board and senior mgt ensure the effective implementation of the proclamation in periodic manner	14 (20.3%)	31 (44.9%)	15 (21.7%)	7 (10.1%)	2 (2.9%)	
14	Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country		6 (8.7%)	10 (14.5%)	27 (39.1%)	26 (37.7%)	
15	EFIC conduct regular typology exercises covering various predicate offences and effective supervision in the banking sector	13 (18.8%)	21 (30.4%)	18 (26.1%)	11 (15.9%)	6 (8.7%)	
16	The cooperation and the coordination of law enforcement agency and regulatory bodies on preventing and suppressing of money laundry and terrorist financing are low.	20 (29.0%)	33 (47.8%)	11 (15.5%)	5 (7.2%)		

Source: Own Survey, 2019

APPENDIX II: Questionnaire & Interview

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

GENERAL MBA PROGRAM

Participants′ Information

My name is Bethlehem Addis. Currently I am pursuing Master's Degree in General MBA at Saint Mary's University.

The aim of this questionnaire is to get information regards Challenges and Practices of Anti-Money Laundering and Combating of Terrorism Financing-The Case of the Ethiopian Commercial Banks, for my research dissertation in the partial fulfillment of the requirement of Master's Degree, I will ask you to respond to all questionnaires, so that I can develop an understanding of your Bank's experiences.

The researcher would like to assure you that your responses will be completely kept confidential and shall be used for the purpose of this academic research only. Therefore, I request you in advance to give constructive and truthful response for each question.

Thank you very much for your cooperation!

Questionnaire

This questionnaire has five parts, such as Socio – demographic variable, General AML/CFT Policies and Procedures, Preventive Measures of Commercial Banks, AML/CFT practice and Implementation Challenges in Commercial Banks.

Kindly read the questions carefully and tick on corresponding to the given scale.

Part I. Socio-Demographic Variable

1. **Sex** **Female** ☐ **Male** ☐

   Age **18- 25** ☐ **26-35** ☐ **36-45** ☐ **46 and above** ☐

2. **Qualification**

Masters and above ☐ **first degree** ☐ **Diploma & Certificate** ☐

3. **Year of Service**

   < 5years ☐ **6-10 years** ☐ **11-30 years** ☐ **>30 years** ☐

II.AML/CFT Policies and Procedures

Strongly Disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly Agree (5)

S/N	Statements	1	2	3	4	5
1.	There is effective Compliance program, policy and procedure approved by the bank's board					
2.	Written policy framework is adopted stating the bank's commitment to comply with AML/CFT obligations in accordance with applicable proclamations and laws and international standards.					
3.	Adequately resourced and independent audit function is designated to test the effectiveness of the compliance program against international standards and applicable proclamations and laws.					
4.	Sufficient resources are allocated for the proper function of AML/CFT compliance.					
5.	Procedure is in place to identify, assess and understand money laundering and terrorist financing risks in the bank.					
6.	Internal controls and procedures are in place in order to prevent criminals using the bank's facilities for money laundering and terrorist financing					
7.	Written policies are developed documenting the process required to prevent, detect and report suspicious transactions.					
8.	Record retention procedures are in place in accordance with applicable laws.					
9.	Policy, manual and procedure are in place to manage and mitigate risks that have been identified.					
10	Periodic audit to verify the effectiveness of the compliance program is Formulated and being conducted.					

Part III. Preventive Measures

Strongly Disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly Agree (5)

S/N	Statements	1	2	3	4	5
1.	The board is periodically monitoring the compliance risk exposure of the bank and provide high level direction					
2.	A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank's AML/CFT compliance program.					
3.	Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.					
4.	The bank conducts risk based assessment on its customer base and their transactions.					
5.	Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.					
6.	Automated screening tool is in place to identify Politically Exposed Persons (PEPs).					
7.	Customer due diligence (CDD) procedures are carried out on customers on an ongoing basis					
8.	KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents					

Part IV. The AML/CFT practice

Strongly Disagree (1)   Disagree (2)   Neutral (3) Agree (4)   Strongly Agree (5)

S/N	Statements	1	2	3	4	5
1	Automated compliance system is in place to detect and report suspicious transactions and customers					
2	The bank refrains from establishing relationship with shell banks and maintaining anonymous accounts.					
3	The bank identifies and assesses potential money laundering and terrorist financing risks that may arise due to development of new products, business practices and technologies.					
4	Know your customer (KYC) procedures are properly implemented before establishing business relations, whenever doubt exists about the adequacy of previously obtained records and whenever suspicion of money laundering and financing of terrorism arises.					
5	Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions to/from high risk jurisdictions.					
6	Customers are screened against international SDN sanctioned lists such as; UN and OFAC before establishing business relationship and on an ongoing basis.					
7	Accurate originators' and beneficiaries' information is captured during local and international wire transfer.					
8	Relevant customer and transaction records are kept as required by applicable laws					
9	The bank fully cooperates with international organizations and correspondent banks towards AML/CFT endeavors.					
10	Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers					
11	Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees					
12	New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees					
13	Employees are prohibited from disclosing (Tipping-off) the fact that a suspicious transaction or related information is being filed to concerned authorities.					
14	Senior mgt is effectively implementing policies and procedures to manage compliance risk throughout the bank					

Part V.AML/CFT Implementation Challenges in Commercial Banks

Strongly Disagree (1) Disagree (2) Neutral (3) Agree (4) Strongly Agree (5)

S/N	Statements	1	2	3	4	5
1.	Tone at the top is not set and adequate emphasis is not given by senior management towards instilling strong AML/CFT culture across the bank.					
2.	The Presence of high percentage of population that is without access to financial services and cash based economy.					
3.	The presence of unregulated and unlicensed money and value transfer services					
4.	Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult					
5.	Absence of National ID card hinders effective KYC procedures.					
6.	List of Politically Exposed Persons and local sanction lists are not provided by concerned regulatory bodies.					
7.	Lack of technology to enhance the AML/CFT activities.					
8.	Sufficient resource is not allocated to implement devised compliance program					
9.	Competent staffs are not assigned to oversee the compliance activities					
10.	AML/CTF awareness in media is lower in the country.					
11.	All domestic stakeholders in the fight against ML/TF is not actively involved					
12.	EFIC and NBE support banks in AML/CFT capacity building					
13.	Board and senior mgt ensure the effective implementation of the proclamation in periodic manner					
14.	Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill gotten cash in the country					
15.	EFIC conduct regular typology exercises covering various predicate offences and effective supervision in the banking sector					
16.	The cooperation and the coordination of law enforcement agency and regulatory bodies on preventing and suppressing of money laundry and terrorist financing are low.					

APPENDIX III:

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
GENERAL MBA PROGRAM

I. Participants′ Information

I am a student of St, Mary's University in MBA program and currently I am studying about Challenges and Practices of Anti-Money Laundering and Combating of Terrorism Financing-The Case of the Ethiopian Commercial Banks.

The purpose of this study is to assess the extent of Challenges and Practices of Anti-Money Laundering and Combating of Terrorism Financing-The Case of the Ethiopian Commercial Banks and to provide appropriate recommendations.

This is therefore to kindly request you, to fill the appropriate answer for each question. We would like to assure you that the information obtained from the questionnaire is solely used for this research purpose.

Thank you very much for your cooperation!

II. Interview Questions for Financial Intelligence Center Directorates

1. How often you examine the AML/CFT practice of banks in accordance with applicable laws by conducting regular supervision and communicate results promptly?
2. Do you communicate relevant statistics related to ML/TF trends, investigations and prosecutions?
3. Rate the existing AML/CFT practice of commercial banks against international standards and applicable laws
4. What can be suggested to policy makers to enhance the threat of ML/TF?
5. Could you state the frequency of onsite visit per year on Commercial Banks?
6. How do you evaluate Ethiopia's Cooperation and coordination with national and international organizations?
7. How do you evaluate the level of other government institutions and the general public awareness in combating ML and TF?
8. What are the challenges of instilling robust AML/CFT regime in Ethiopia and especially in the banking sector?