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SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF GENERAL MBA

MONEY LAUNDERING AND ITS CONSEQUENCES IN ETHIOPIA

BY

WUBALEM MENGISTIE AYENEW

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Approved by the board of examiners

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Advisor	**Signature**
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External Examiner	**Signature**

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dejene Mamo(Associate Professor). 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 Signature

St. Mary's University, Addis Ababa **June, 2016**

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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List of Acronyms & Abbreviations

AML	Anti Money Laundering
Cb’s	Commercial Banks
CDD	Customer Due Diligence
CFT	Combating Financing of Terrorism
CGCC	Center on Global Counterterrorism Cooperation
CSRP	Civil Service Reform Program
CTR	Cash Transaction Report
DAG	Development Agency Group
DNFBs	Designated Non Financial Businesses
ERCA	Ethiopian Revenue and Customs Authority
ESAAMLG	Eastern and Southern Africa Anti Money Laundering Group
FCY	Foreign Currency
FATF	Financial Action Task Force
FIC	Financial intelligence center (Ethiopia)
FIU	Financial Intelligent Unit
FSRBs	FATF - Style Regional Bodies
IFF	Illicit Financial Flow
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INSA	Information Network Security Agency
KYC	Know Your Customer
MENAFATF	Middle East and North Africa Financial Action Task Force
MoFED	Ministry of Finance and Economic Development
MoJ	Ministry of Justice
MoU	Memoranda of Understanding
NBE	National Bank of Ethiopia
PEPs	Politically Exposed Persons
SPSS	Statistical Package for Social Sciences
STR	Suspicious Transaction Report

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Abstract

Objective of the study is to investigate the country's stand and performance on anti money laundering and to highlight challenges and potential consequences. The research methodology is a descriptive survey design, both quantitative and qualitative method. Questionnaire and un-structured interview are used. The sampling technique is purposive sampling. Findings include major threats of Money Laundering such as low performances of commercial banks in some areas and other governmental institutions. Methods of money laundering, types of crimes and other vulnerable factors of money laundering are the findings and analysis of the research. Banks and Financial Intelligence Center performance on Politically Exposed persons (PEP's) are in a very low performance. Lack of awareness, loose cross border control, corruption, tax evasion, Designated Non-Financial Businesses (DNFB's) such as Real estate transaction are the major factors of money laundering. Institutions in particular and the government in general should work on to improve the weak bureaucracy and the slow change of reform in order to tackle these money laundering threats.

Key words: (Anti) Money laundering, vulnerability factors, methods of money laundering

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CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study area

Historically money laundering became known as a phenomenon in United States of America. Starting from 1920s, when Chicago gangster conceal illegal alcohol proceeds in to revenues from his laundry business, there have been many discourses on money laundering and becomes a global phenomenon, both in developing and developed world (John Walker, 1995).

The use of technology, money laundering and financing of terrorism pose serious threats to the economies, societies and national security of a country as well as to the international community. Financial institutions that became a vehicle for money laundering and financing of terrorism activities incur risks to its operations and reputations as these activities may lead to severe damage (ibid).

Especially after 9/11 terrorist attack in the USA; the world is being enforced to know how much illegal money flow is dangerous. After the attack, Financial Action Task Force (FATF) has strongly recommended countries to establish Financial Intelligence Units (FIU) and accept suspicious reports from financial institutions and Non Financial Businesses and professions (FATF annual report, 2001/2002).

When we see our country's situation with this global threat perspectives there are several reasons that make Ethiopia vulnerable to money laundering activities. The following are a few among many that contribute for this prevailing epidemic problem.

Ethiopia's location within the Horn of Africa makes vulnerable to money laundering activities as it is surrounded by unstable and porous boarders neighboring countries like Somalia, Southern Sudan and Eretria (Biniam Shiferaw, 2011). Unless and otherwise urgent cooperation brings into deal among these neighboring countries the problem might be out of control and causes for socio-economic and political instability in the region.

Corruption and illicit capital outflow are other reasons that aggravate money laundering. Corruption and money laundering are symbiotic. These two crimes usually occur together but most importantly, the presence of one tends to create and reciprocally reinforce the incidence of the other. Ethiopia ranks 136 out of 175 countries according to the Transparency International index of 2014 and it does not adequately addressed the nexus between money laundering and corruption unlike money laundering with terrorist financing (Transparency International, 2014).

Payment systems used for money transactions in banks and the parallel banking system like 'Hawalla' are other the most common medium of money laundering activities. Although it is impossible to find the exact magnitude or percentage share of cash based payments in Ethiopia, it far exceeds all other forms of payments (BiniamShiferaw, 2011). Since capturing and monitoring cash transaction is difficult, money laundering is booming without being detected. This becomes a difficult challenge for law enforcement groups and regulators. The parallel banking activities internationally known as 'Hawallas' encourage money laundering activities as they are able to wire funds to and from other jurisdictions without going through the formal banking system. In order to combat this huge threat the Ethiopian government is undertaking the following efforts.

1.2 Legal Framework, Operational Developments and Internal and External Cooperation

The concept of money laundering in Ethiopia became a phenomenon after the promulgation of the new proclamation No. 657/2009 on the issue and the initiation of some cases in this respect. Ethiopia has made several progresses so as to reduce a crime of money laundering. The proclamation also declares the applicability of proclamation No 434/2005 to freezing, seizure and confiscation of assets in connection with combating money laundering.

The criminal code of the Federal Democratic Republic of Ethiopia also declared about money laundering under article 684. According to this article, whoever launders money or property, derived from corruption, drug trafficking, illegal arms dealings or crimes indicated under some other articles, or any similar serious crime, by disguising its source through investment, transfer or remission is punishable with rigorous imprisonment from five years to fifteen years, and fine not exceeding one hundred thousand Birr.

Proclamation No 780/2013 of prevention and suppression of money laundering and financing of terrorism proclaimed by replacing proclamation No 657/2009 and article 684 of criminal code in order to overcome deficiencies.

Regulation No 171/2009 brought the establishment of Ethiopian Financial Intelligence Center (FIC). FIC has been undertaking to hire employees or experts, and has also delivered capacity building programs not only for its staff but also for the employees of stakeholders like banks, ERCA, MoJ, NGOs, insurances, NBE, Ministry of Trade, MoFED, Federal Ethics and Anti corruption Commission, Association of Banks and others.

Cooperation and coordination has vital importance to combat not only money laundering but also other forms of crimes. Accordingly, Memoranda of Understanding (MoU) or other legal agreements with government agencies as well as FIUs in other countries has been signed to facilitate information sharing or for requiring technical assistance related to Anti-Money Laundering (AML) and Combatting Financing of Terrorism (CTF) efforts.

Internally, FIC has started cooperation with stakeholders by signing MoU under article 21(2) of proclamation No 657/2009 to declare the powers and duties of FIC; it has to provide guidance and direction as needed to other governmental and non governmental institutions with anti money laundering counter terrorist financing related responsibilities.

Ethiopian acknowledged also by FATF in June 2014 after Ethiopia passed regulation no. 306/2014 detailing procedures for freezing terrorist assets in order to address one of the key remaining FATF-identified deficiencies in the country's AML/ CFT regime. Furthermore, Ethiopia works to be a member of the Egmont Group of FIUs which is very important for international cooperation in the fight against money laundering and financing of terrorism.

1. 3 Statement of the Problem

During 1998, IMF estimated global volume of money laundering between 2-5% of world's GDP. Based on the then statistics, these percentages would indicate that money laundering ranged between USD600 billion and USD 1.5 trillion, which reveals how much money laundering has potentially devastating economic, security, and social consequences.

Money Laundering and illicit financial out flow have symbiotic relations (David Chaikin and J.C. Sharman, 2009). Capital flight is also one of the problems aggravating money laundering and creating a serious development challenges for most African economies and have become increasingly indebted; they experienced large scale capital flight. Ethiopia is not exceptional for this impact. According to Transparency International Corruption Perception Index report

Ethiopia ranked 110^{th} out of 175 countries and it is among the top 20 African countries with the amount of 17,032 billion US dollar within 39 years (Transparency International, 2014). Global Financial Integrity recent report from 2004-2013 also indicates the amount of capital flight has reached as 25,835 billion US dollar. In conclusion, currently the impact of capital flight for Ethiopia economy is becoming very severe (Global Financial Integrity report, 2004-2013**).**

Ethiopia's location within the Horn of Africa- where there are transnational criminal organizations, terrorists and other serious criminals- makes it vulnerable to money laundering related activities. Ethiopia may also vulnerable because of strategic AML/CFT deficiencies of Eastern Africa countries, even though Ethiopia has addressed its own deficiencies (FATF public statement, 2014).

Even though there are no many studies in Ethiopia on money laundering there are three conducted researches. Biniam Shiferaw(2011) tried to examine the compatibility of the law on money laundering with internationally accepted principles and its competency in solving the current problem of money laundering in general and in the financial sectors of Ethiopia. He examined the international principles in detail vis-à-vis the Ethiopian law on money laundering.

An other research conducted on money laundering is by Ayele Yitayew(2014), studied AML/CTF compliance practices in Ethiopia Commercial Banks visa vis opportunities and challenges. His study focused on to examine and measure AML/CTF system implementation and the practices of Ethiopian Commercial Banks.

Tesfay G/egziabher(2015) studied on Assessment of Techniques and Methods of Trade Based Money Laundering: the case of Ethiopia. In relation to the techniques and methods of Trade Based Money Laundering (TBML) under invoicing, over invoicing; multiple invoicing, falsified invoicing was employed. Illegal hawala and black-market also considered as complex part of TBML.The relationship between TBML and tax evasion is very high and the same TBML and foreign currency reserves. The collaboration and coordination of stakeholder agencies have been low in order to prevent and suppress TBML.

The study focuses on to fill the knowledge gap that are not addressed by earlier researchers like status of crimes on money laundering, vulnerability factors(level of awareness on stake holder agencies and etc.). Performance level of Bank and non-Bank institutions stakeholders on anti money laundering activity, various methods that criminals use to launder their illicit fund and challenges of money laundering and the country's stand and performance on anti money laundering in general will be addressed. Furthermore, potential consequences of money laundering will be highlighted. The study concentrates on to asses the level of money laundering threats and its counter measures taken by the government. Thus, the central questions of the research are;

1.3.1 Research Questions

- What are the factors that contribute to money laundering?
- What are the methods of money laundering in Ethiopia?
- How is the status of crimes to contribute for money laundering?
- What are the challenges the country faces in fighting money laundering?
- What consequences money laundering would pose to the country as a whole?

1. 4 Objective of the Study

1.4.1 General Objective

The general objective of the study is to investigate the country's stand and performance on anti money laundering and to highlight potential consequences of money laundering in Ethiopia.

1.4.2 Specific objectives:

- To assess the` major factors that contributes money laundering in Ethiopia.
- To point out the challenges faces for the country to fight money laundering.
- To identify the methods of money laundering in Ethiopia.

1. 5 Significance of the Study

The study may be used to create public awareness on the issue and consequences of money laundering. The major significance of this study is to call an attention on money laundering by investigating the extent of money laundering in Ethiopia. Furthermore, the study enables NBE and other concerned bodies especially FIC to take policy measures on this devastating crime.

1.6 Scope of the Study

This study deliberately exclude DNFBs and professions (Real estate agents and brokers, dealers in precious metals or precious stones, lawyers and independent accountants) because they didn't start to involve on AML efforts, they are expected to start in the near future. Rather, the research incorporates the performance of Banks on AML.

1.7 Limitation of the study

There are some limitations that face in the preparation of this research thesis. The research by its nature needs sufficient time and difficult to manage with the time allocated. Secondary data was not available since there is no research made on this topic. To get information through primary sources like interview are also big challenges that the researcher faced during the study.

1. 8 Organization of the research document

The study outlined in to five chapters; the first chapter presents the introduction of the study and the purpose of the research. The second part of the paper discussed related empirical and theoretical aspects. The other part of the study which is chapter three presented methodology. Chapter four presents data analysis and results of the study, finally the last part of the paper discussed conclusions and recommendations part.

CHAPTER TWO

LITERATURE REVIEW

2. 1 Definition of Money Laundering

Money which is not associated with criminal activity can be freely disposed without any fear of incrimination as being part to any criminal misdeeds. Whereas, the sudden acquisition of a large amount of money without explanation invites someone's suspicion that its source is some illegitimate activity (Rachel Manney, 2002).

Here is the word "Money laundering" that evokes images of sophisticated multinational financial operations that transforms criminal proceeds of dirty money into clean money (Michael Levi, 2002).

Money laundering has been defined in different ways. Though most countries subscribe to the definition given under the Vienna Convention and the Palermo Convention, the Financial Action Task Force (FATF), a recognized international standard setter about anti money laundering operation defines it in a similar fashion as:

The conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person who is involved in committing such an offence or offences to evade the legal consequences of such action; the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing at the time of receipt that such property was derived from a criminal offence or from an act of participation in such an offence (Denisse V. Rudich, 2005).

Money laundering could be defined in multifarious ways but the common element amongst them is 'the transfer of the illegal assets into the legal economic system'. Generally speaking money laundering is the term used to describe the process that disguises the illegal sources of money and frees the funds for use in the legitimate economy.

The origin of the term is controversial, Some points to the literal meaning of the expression laundering or washing money free from its criminal association whilst others point to the use of laundries or rather Laundromats and other cash business by U.S. organized criminals trying to integrate their proceeds of crime in to the legitimate economy during the prohibited era (Jane Bourne, 2002).

Whereas, others in a similar fashion argue that the term is derived from the fact that certain organized crime rings in the 1920's commingled the proceeds of their illicit operations in a practically untraceable manner and thereby making the funds appear to be derived from legitimate activities (Todd Doyle, 2002). Despite the fact that the term 'money laundering' may have been originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the down of banking itself (Ibid. P.283)

However, money laundering became an issue both at national and international level with the rise of world-wide drug trafficking in the 1980's and the money laundering operation associated with such activity and on those involved in it attempting both to stop criminals profiting from their crimes and to trace back those proceeds in order to reach the kingpin (E.P Ellinger et al., 2006).

National legislations in many parts of the world as well as international instruments began misusing the term money laundering with particular reference to drug trafficking, which latter extended to other predicate offences. Now a day, money laundering has received a great deal of attention all over the world for three fold reasons (Scott Sultzer, 1996). First, it is a major worldwide problem and countries want to deter money launderers from using their financial system for illicit purposes. Second, it presents the most effective target for law enforcement officials to prosecute and punish those involved in money laundering activities as leaders of organized crimes and lastly money laundering is a simple means to tackle and intercept predicate crimes than the underlying criminal activity itself and it makes investigation easier for government agents to produce measurable and visible results.

Money laundering is regarded as the world's largest industry after international oil trade and foreign exchange (Angela Veng Mei Leong, 2007).

During 1998, IMF estimated global volume of money laundering between two and five percent of world's GDP. Based on the then statistics, these percentages would indicate that money laundering ranged between USD600 billion and USD 1.5 trillion, which reveals how much money laundering has potentially devastating economic, security, and social consequences.

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 as well as newspapers and televisions (Lisa A. Barbut, 1995).

In spite the endeavors made both at national and international level, many laundering continues to be the problem of the globe because of its lucrative nature while penalties for money laundering are insignificant in light of the profits generated from the activity (Ibid. P. 164).

Of course the historic success of money laundering can be attributed not only to its profitability and the relatively light penalty to which the perpetrators may be subjected, but also to other factors such as the sheer increase of financial transactions, interdependence of global economy, the sophistication and flexibility of money laundering operations as well as the money launderers' ability to exploit advanced technologies associated with modern banking system (Bruce Zagaris and Scott B. MacDonald, 1992). However, the fight against money laundering is increasing alarmingly at international as well as domestic level. Here comes the question why money launderers engage in these activities despite the domestic and international efforts to fight the crime?

Organizations involved in the criminal activity use money as their life blood. Money replenishes inventories, purchases the services of corrupt officials to escape detection and further the interest of their illegal enterprises and pays for an extravagant life style. Further money laundering presupposes the commission of other crimes. Thus a trail of money from an offence to criminals can become incriminating evidence. So in order to ensure that they are not to be prosecuted because of such money, they usually try to obscure the sources of their ill gotten money to make them look legitimate (Managing Core Risks in Banking: Guidance Notes on Prevention of Money Laundering, Focus Group on the Prevention of Money Laundering, Bangladesh Bank, 2003, P.3)

2. 2 Upset (cost) of Money Laundering

Money laundering can occur in any country and it has devastating economic and social consequences in developed and developing countries with tragic financial system because those markets tend to be small with inexperienced regulatory organ and therefore more susceptible to disruption from launderers. The absence or lax of anti money laundering regime or the prevalence of corruption in the law enforcement organs entrusted with the task of fighting it in a country therefore, permit the following consequences.

Money launderers are known for using front companies (Marco Arnone, 2010). These front companies co-mingle the loot with legitimate funds in order to ward off the ill-gotten proceeds. Front companies' access to illicit fund allows them to subsidize the front company's products and services so that they make their goods and services available to the public on lower prices than is normally the case in a competitive market. Consequently, legitimate businesses find it difficult to cope with such front companies (Marco Arnone, (2010). Therefore, legitimate companies will be forced to get out from the market and it will have further consequences up on government as well as the society at large in addition to those private sectors i.e. bad money causes out good.

Money laundering can harm the soundness of a country's financial sector as well as the stability of individual financial institutions in multiple ways (Abdullahi Y, Shehu, 2010). The adverse consequence of money laundering is generally described as reputational, operational, and legal and concentration risks as explained hereunder.

Reputational risk is a kind of risk that will have the consequences of customers' confidence loss in the integrity of the institution. As a consequence, customers, borrowers and depositors plus legitimate investors cease doing business with such institutions. This inevitably affects the reputation of a country and forces investors to invest in countries that are less vulnerable to money laundering. Moreover, the fund of money launderers is not reliable for they withdraw the money through wire transfer or other methods causing potential liquidity problem (Riggs National Bank, Washington post January 28, 2005).

Operational risk is related to a bank's overall organization and function of internal system, including computer related and other technologies: compliance with bank policies and procedures; measures against mismanagement and fraud (Hennie Van Greuning, 2003).

Legal risk is the potential for law suits, adverse judgments, unenforceable contracts, fine and penalties generating losses, increased expenses for an institution or even closure of such institutions. Due to this, legitimate customers may be victims of such financial crimes, lose money and sue the institution for reimbursement (Basel Committee in Banking Supervision 2001).

Money laundering not only affects the microeconomic environment i.e. the economic lives and wellbeing of individuals and businesses, but also the macroeconomic climate of a country. Nations washed in laundered money have a hard time attracting foreign investment because it may be reasonable for an investor to shy away from an environment where price information is distorted by insider trading, fraud and embezzlement (Peter J. Quirk, 1997).

Money launders tend to be low rate savers, who invent in more speculative venture. This movement from stable, productive business in to risky, less productive portfolio reduces the level of investment available to sustain economic growth, resulting in lowered growth rates (Ricardo AzevedoAraujo, 2000).

Other launderers tend to put their money in static investments that do not contribute to the nation's productivity. Since these launderers asset tend to accumulate rather than flow through the economic system, there is an increasing danger of destabilizing the international or national mobility of assets (Paul Kennedy, 2003). This is because launderers would not look where to best invest their money based on economic principle but rather at where it would be easier to avoid being caught or based on where the cost of avoidance is lower.

This misdirection of resource contributes to economic inefficiency and lowered economic performance there by thwarting a nation's attempt to control money supply, foreign reserves and interest rates (ibid). The effect of such activity is general economic malice as investment capital becomes scarce, interest rate rises; as interest rate rises, businesses borrow less; as business borrow less, productive capacity decreases; as capacity decreases, unemployment increases. Therefore, the end result is stagflation- a combination of high unemployment, high inflation and high interest rates (Paul Kennedy, 2003).

The efforts of many countries to reform their economies through privatization have also been manipulated by money launderers (Paul Allan Schott, 2006). Criminal organization are capable of outbidding legitimate purchases of former state owned enterprises and consequently increase their potential for more criminal activity and corruption using those enterprises as a legitimate fronts to launder funds. This in any way will undermine economic reforms as money launderers are not interested in operating these entities as going concerns but rather as conduits for money laundering activities.

Money laundering allows criminal syndicates to expand the scale and scope of their criminal activities by enabling criminal organizations to realize profits from committing crime (Perras J., 2001). It facilitates crime by capacitating criminal groups and networks to self finance diversify and growth (FATF June 5, 2010).Thus a country which is viewed as a haven for money laundering is likely to attract criminals and promote corruption.

2. 3 Money Laundering Process

It is common to divide the money laundering process in to three stages. According to Paul Fagyal, (2006), these are placement, layering and integration. Experts in the field; however, criticize dividing the process of money laundering in to three distinct stages as it is unclear where one stage begins and the other ends. Nevertheless, both sides and the law enforcement community continue to refer to the different stages while discussing the issue.

Placement

This stage involves introducing the money in to the financial system in a way that it can be maneuvered through a series of complex transactions so as to remove the cash from its original location to avoid detection by the authorities (Vijay Kumar Singh, 2009).

Money launderers in the initial stage are exposed to law enforcement detection because there exists a direct connection between the profits and the crime and it also involves the physical disposal of the cash (Alison S. Bachus, 2004).

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

In order to avoid deposits of large sum of money that may trigger suspicion and cause detection, they just use a process called surfing (Sarah Jane Hughes, 1992). In this process a number of individuals make small deposits in a number of different depository institutions so as to avoid detection.

Therefore, although financial institutions maintain anti money laundering compliance programs, the developing process of surfing demonstrates the difficulty of eradicating money laundering. Purchasing expensive property and reselling it, creating legitimate or semi legitimate business that typically deals in cash like hotels and bars are among other mechanisms used in the placement stage in order to obscure the source of illegitimate money (Paul Fagyal, supra note at 37).

Layering

At this particular juncture of the process, launderers separate the illicit proceeds from their sources through complex and often illusory transactions disguising the provenance of the funds (Nicholas Clark, 1996). This step is called layering because it conceals the audit trail and provides anonymity. It is the most international and complex of the laundering cycle because money is moved to offshore bank accounts in the name of shell companies, purchasing high value commodities like diamonds and transfer the same to different jurisdictions (Vijay Kumar S. supra note at 39). Different technique like loan at low or no interest rate, money exchange offices, correspondent banking, fictitious shares and trust offices are utilized for the purpose of laundering the money at this particular juncture. (Ibid)

The technological advancement of Electronic Fund Transfer (EFT) has also contributed for this stage of the laundering process because money movement is a click away not only at national level but at international level too as a result of electronic fund transfer.

However, there are a number of characteristics that might indicate money laundering activities. Seemingly ludicrous financial transactions, large number of sales and purchases subject to commission, numerous accounts, ostensibly unconnected being consolidated in to a smaller amount of accounts and lack of concern over loses on investment, bank charges or professional advisor charges are among the traits to be mentioned (Paul Fagyal, supra note at 37).

International standard to discourage layering have began to develop through a focus on increased transparency in the financial system generally and through increased recognition of the need to eliminate techniques such as the use of nominees and numbered accounts to disguise the actual ownership of assets. Likewise, there has been growing international recognition that bank secrecy rules must give away to permit law enforcement agencies to review financial records in cases where there is an active criminal investigation pertaining to the source of the funds.

Therefore, once the money has worked its way in to the financial system, it would rarely be detected independently of criminal investigation and hence needs agreement with other countries to have success in stopping money laundering at the layering stage (Ibid).

Integration

The layering stage of transaction involves the transmission of money to accounts so-called bank secrecy havens or it involves a number of transactions and thus, it becomes difficult to figure out the identity of the account holder and the money's origin (Mariano-Florentino Cuellar, 2003).

This makes it possible for the criminal to engage in the final stage. The final stage of money laundering is the integration of the funds in to the legal business environment. At this time, the money has been divided up and intermingled with the legitimate economy and moved between a number of bank accounts and nations making it almost impossible to trace (Kathleen A. Lacey and Barbra Crutchfield George, 2003).

The methods adopted to successfully integrate funds from a criminal enterprise would very often be similar to practices adopted by legitimate business and this would make it more difficult to isolate a modus operandi that is unique to money laundering (Schroeder, W.R, 2001).

2. 4Factors induce Money Laundering

- **Capital Flight**

Illicit financial flows are a broader category that includes payments for smuggled imports, payments arising from trade in narcotics and other contraband, laundered money that flows through officially recorded banking channels, and the effects of intra-firm transfer pricing (Boyce and AmethSaloumNdiaye , 2014). It weakened the economy by draining valuable national resources, widens the resource gaps faced by these countries, perpetuating their dependence on external aid. Moreover, by deepening the resource gaps, capital flight slows down capital accumulation and long run growth. Money out flows illegally and inflows in the form of investment considered as money laundering.

Capital flight involves illicit practices such as the falsification of trade documents (trade-mis-invoicing)(Tesfaye, 2015), the embezzlement of export revenues, and kickbacks on public and private sector contracts. These flows are largely unrecorded (not captured by the balance of payment and other official statistics). Are often associated with active attempts to hide origin, destination and true ownership etc (they seek secrecy). Usually associated with public loss and private gain because no (or little) tax is paid on them or because they may be compromised of bribes paid. Capital flows constitute domestic wealth permanently put beyond the reach of domestic authorities in the source country. These flows are not part of a fair value" transaction and would not stand up to public scrutiny if all information about them was disclosed (Ndiaye, 2014).

The main actors who help facilitate capital flight are Complicit business counterparts in western countries (for domestic exporters and importers); Armies of well-paid lawyers, accountants and company formation agents who design aggressive tax planning & transfer pricing strategies and incorporate dummy corporations and sham trusts; Financial centers which legislate for low taxes and the existence of bank secrecy and provide services such as the incorporation of shell corporations, sham trusts and other impenetrable legal structures with nominee directors Bankers and financiers who solicit and enable the flight of capital and manage the illicit wealth and Government officials(ibid).

The mechanisms most commonly implicated in the flight of capital include: The mis-invoicing of trade transactions. This can be done by under-invoicing; the value of exports from the country from which cash is to be expatriated. The goods are then sold on at full value once exported with the excess amount (constituting flight capital) being paid directly into an offshore account over-invoicing; the value of imports into the country from which cash is to be expatriated, the excess part of which constitutes capital flight and is deposited in the importer's offshore bank account; Mis-reporting the quality or grade of traded products and services; to assist value over or understatement for the reasons noted above; mis-reporting quantities; to assist value over or under-statement for the reasons noted above, Creating fictitious transactions; for which payment is made for imported goods or services that never materialize(Tesfaye, 2015).

Capital flight is therefore illicit in all three respects. First, funds acquired illegally(Respondents): Capital outflows are illicit when the funds were acquired illegally. Funds may be acquired illegally through the embezzlement of public resources (tax revenue, loans, export proceeds of public enterprises, etc.), bribes and extortion on public projects, tax evasion, and the proceeds of criminal activities such drug and human trafficking. The above result obtained through primary source in the form of questionnaire tells similar result.

Funds acquired by such illegal means will often be hidden abroad for the sake of evading legal scrutiny on their origins (Respondents). Secondly, funds transferred abroad illegally: Capital outflows are illicit when they are transferred into foreign assets (liquid assets such as bank deposits, or physical assets such as real estate) without the required declaration of the transaction with the relevant regulatory authorities (central bank, customs authorities, etc.). This can involve actual, undeclared movement of funds from the country to foreign entities and locations, or the manipulation of trade invoices to overstate or understate the value of transactions in order to transfer or keep some of the funds abroad. Third, funds held abroad illegally: The illicit nature of capital flight may also arise from the failure by the owners to report or declare these assets to the national authorities. This is motivated either by the desire to conceal the origin of the funds (if these were illicitly acquired or illicitly transferred abroad) or to avoid taxation. The illicit transfer and holding of assets abroad has been facilitated over the past decades by the explosion of the offshore financial system and bank secrecy jurisdictions or ‘safe havens’ (ibid).

In Africa, eighteen out of the 39 countries, the accumulated capital flight by 2010 exceeded GDP. Capital flight is also large relative to official development aid, foreign direct investment, and external debt. Indeed, contrary to the perception that Africa is heavily indebted to the rest of the world. The continent is a ‘net creditor’ to the rest of the world in the sense that accumulated private assets through capital flight exceed the continent’s liabilities (ibid).

Global Financial Integrity on its study of 2008 illicit financial flows from 1970-2008 in Africa indicates huge amount of US Dollar. Horn of Africa alone contributes about USD 37,197 billion US dollar. The cumulative amount of capital flight is significant in Nigeria, Sudan, Cote d’ Ivoire and Ethiopia. It is also in these countries that have the three mostly indebted(IMF Research Department, 1997).

Thus, there are the twin problems of heavy external indebtedness and capital flight particularly in Nigeria, Cote d’Ivoire, Sudan and Ethiopia. The ratio of capital flight to other macroeconomic variables is significant for most of the countries in this group. Capital flight is related to being in ‘’power’’ and having access to domestic and foreign money and it is an issue that goes beyond the straight-jacket economics that is often used to explain its magnitude. The solution lies in attitudinal changes culminating in better governance as shown in accountability and transparency (ibid)

Studies strongly suggest that capital flight from African countries was partly fueled by external borrowing. On average, 63 to 73 cents out of each dollar borrowed by African countries in a five-year period exited in the same period in the form of capital flight. The evidence also provides some indication that positive economic performance in the form of strong economic growth may serve as a deterrent to capital flight.

Numerous empirical literature studies have been conducted to identify the key determinants of capital flight in different countries of the world. But the results differ due to the capital flight measures and econometric estimation techniques used. The main determinants of capital flight are; past capital flight, capital inflows, macroeconomic instability, rate of return differentials, financial development, governance and institutional quality, political risks and war, and uncertainty of public policies. (Ndiaye, (2009), Ndikumana and Boyce, (2003), Ndikumana and Boyce, (2007), Cerra et al., 2008, Hermes and Lensink, (2001), Vos (1992)).There fore from our countries perspective the following factors could be considered as the major contributors of money laundering in the form of capital flight.

- **Governance and institutional quality**

According to Ndikumana and Boyce (2003), in a context of poor governance and weak institutions, corrupt elites take advantage of their favorable position to amass personal fortunes that they hold abroad, thus operating massive capital flight episodes. In other word, bad institutional quality plays an important role in explaining capital flight. Key challenges in the national anti-corruption crusade include: (a) absence of a fully developed civil service code of ethics; (b) weak mechanisms for ensuring observance of regulations and procedures; and, (c) manpower shortages and weaknesses in supervisory and auditing agencies.(APRM, 2011). The result from findings shows also as lack of commitment and political will from the government authorities as respondents reply on their open ended questionnaire format provided by the researcher.

- **Past capital flight**

Capital flight tends to persist over time: all else equal, past capital flight “causes” more capital flight, which suggests the dynamics of capital flight. This result can be interpreted as a *habit formation effect*, as private actors gain experience in smuggling capital abroad. The result may also reflect a *contagion effect*, as capital flight corrodes the legitimacy of capital controls, particularly if the flight capitalists include government authorities.

- **Political risk**

High political risk has played a significant role in the capital hemorrhage. In a cross-country study, more durable regimes experience significantly less capital flight, while countries prone to civil wars experience higher capital flight. In both cases it is reflected in Ethiopia while the country was in a long period of civil war in the Dergu era from 19974-1991 and after 1991 in the current more stable and durable regime.

- **Corruption**

The World Bank defines corruption as "the use of public office for private gain" and elaborates money laundering, and similar unlawful actions (The World Bank, 2012). Transparency International also defines corruption as "the abuse of entrusted power for private gain".

Data from the CSRP shows that public opinion believes that corruption is most severe in municipalities, in tax collection agencies, in courts, in *kebele*and *wereda*administrations, and in the police. Educational institutions and parliament are perceived to be the least corrupt. The CSAR identifies major causes of corruption in the country as follows: poor governance; lack of accountability and transparency; low levels of a democratic culture and tradition; inadequate accounting; a weak legal and judicial system; the collapse in moral values; and, an over-regulated bureaucracy.(APRM, ,2011).

In general, high levels of corruption are a symptom of failure of the governance system, which results in high economic risk. In such an environment, private agents cannot fully internalize the costs of corruption and choose to hold assets abroad as a means of hedging against uncertainty.

There are varying opinions among stakeholders about the existence and magnitude of corruption in Ethiopia. In spite of disagreement on this score among them, the stakeholders agree that corruption is a major problem which requires collective action by all strata of the Ethiopian state and society. Notable sources of corruption were generally identified with tax collection, the police, extreme poverty, and poor governance at the level of wereda administration (African Peer Review Mechanism (APRM), 2011).

In recent years, diagnostic studies aiming at assessing the level of corruption in Ethiopia have been conducted with the financial support of development partners. The study includes corruption in construction, health, education, water, land management, justice, telecommunications, and the mining sectors, all relevant to the achievement of the Millennium Development Goals (MDGs).The result of the study in these sectors indicates the existence of corruption in different forms and as the nature of these selected institutions **(**The World Bank, 2012).

However, according to the Transparency International studies Ethiopia scores 33 out of 100 and ranked 110th from 175 countries in 2012(Transparency International Corruption Perceptions Index, 2014).

- **Price distortions**

Agents choose to hold assets abroad to shield their portfolios from the effects of changes in relative returns arising from external shocks and policy uncertainty. Empirical studies have found a significant effect of the black market premium on capital flight. The black market premium constitutes an effective subsidy on assets held abroad and symmetrically a levy on assets held domestically. Market distortions therefore can have important regressive effects, disproportionately hurting the general public relative to the political and economic élites who are able to hold assets abroad (LéonceNdikumana& James K. Boyce on their, 2008)(Interview of FIC informant and bank respondents from the questionnaire).

- **Economic growth**

Although LéonceNdikumanado not agree high economic growth as the cause of capital flight, other researchers believe economic growth aggravates capital flight (YosephHaregewoin, 2012). The researcher brought as an evidence of Ethiopian economic growth and corresponding rise of capital flight.

Joseph justifies in his findings that the Ethiopia economy has consistently shown robust economic growth averaging 8.10 percent for the period 2000-2009 which is very high compared to the average economic growth rate of the period 1990-1999 (2.66 percent). Even the economy has slowed down during 2009 on account of the global recession; it grown at a relatively robust growth rate of 8.79 percent during the year. Although the country is having a progressive economic growth in recent years, the country is losing a huge amount of money as a form of capital flight. For the period 1990-2009 the country lost more than US$ 17.45 billion.

This amount puts the country on the second rank from the selected sample COMESA member countries. From 1990 up to 1999 the country was losing US$ 465.76 million annually on average. But this amount was highly increased for the period 2000-2009 to US$ 3.26 billion annually on average. More worrying is that the data shows Ethiopia’s losses due to capital flight are on the rise. The scope of Ethiopia’s capital flight is so severe that the amount of capital flight US$3.26 billion estimate greatly exceeds the US$2 billion value of Ethiopia’s total exports in 2009 (ibid)(Appendex-vi).

- **Human Trafficking**

International migration flows out of Ethiopia are relatively small. The World Bank cites an emigration rate of 0.6 percent of the population in 2005, which amounts to a stock of 445,926 persons (2008). One of largest current international migration flows is Ethiopian women migrating to the Middle East as domestic workers, which also often occurs through trafficking.

Numbers of trafficked women are unknown but are estimated to be as large as 130,000 Ethiopian women and children in the Gulf States (IOM, no year). The top destinations are Lebanon, Saudi Arabia, Yemen, and the United Arab Emirates (IOM, no year).This problem has been commented by much of the respondents on the provided open ended questionnaire format).

Capital Inflow to Ethiopia

The Official Development Assistance (ODA) that the country receives is relatively high in absolute terms. Development assistance for Ethiopia increased significantly in the recent past, reaching US $1.9 billion in 2005. This has made Ethiopia the largest aid recipient in Africa and the second largest in the world, after Indonesia (Africa Peer Review Mechanism report (APRM), 2011).The following tables indicate the direct relationships of external borrowing and capital flight.

Table-1Development Agency Group Top Bilateral and Multilateral Partners for 2012-2013

	Top Bilaterial Partners	(USD m)		Top Multilateral Partners Includes Core Resources Only	(USD m)
1	United States	610.3	1	World Bank (IDA)	847.6
2	United Kingdom	466.3	2	African Development Bank (AFDF)	222.0
3	European Union	170.8	3	The Global Fund	182.7
4	Japan	146.6	4	GAVI	101.0
5	Canada	128.9	5	UN Funds and Programmers	80.1

Source:DAGAnnualReport
2014-2015

As it is indicated in the above tables even tough the total Grant and Gross loan from 2009-2013 has a rise and fall characteristics from year to year, the total amount of fund obtained from bilateral and multilateral donors agencies is very high. Similarly, tough there is no available recent data obtained by the Transparency International that indicates illicit capital flow from Ethiopia after 2010, the series data from 1970-2010 indicates the rise of illicit financial flows from year to year until it reaches to the total amount of USD 24,874.8 billion dollars within 40 years. There fore, annual flows of external borrowing constitute the most consistent determinant of capital flight.

Capital outflow from Ethiopia

The table provided bellow shows the 40 years annual series data of Ethiopia provided by Global Financial Integrity report.

Table -2 Illicit Financial Flow From Ethiopian (1970 - 2010)

Country	***1970***	***1971***	***1972***	***1973***	***1974***	***1975***	***1976***	***1977***	***1978***	***1979***	***1980***
Ethiopia	57.3	13.2	-597.2	155.6	-78.6	-78.6	309.0	-76.3	170.3	18.5	-103.2

Country	**1981**	**1982**	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**	**1989**	**1990**	**1991**
Ethiopia	1453.2	2746.1	1096.8	432.5	1259.5	778	1818.4	-369.9	-303.7	-327.9	226.0

Country	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Ethiopia	139.5	26.8	614.9	456.5	-675.6	406.2	888.9	538	406.2	2,518.0	3073.4

Country	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Total**
Ethiopia	1598.4	1400.8	-319.9	104.0	1695.6	-263.8	1875.1	3407.7	**24875**

Source: Extracted from Global Financial Integrity report.

James K and yeeNikumena, 2012

2. 5 International Anti Money-Laundering clean-up organizations

According to the World Bank Anti-Money Laundering and Combating the Financing of Terrorism there are six standard setters on anti money laundering. We mention bellow the major three players (World Bank, 2006).

2. 5. 1 The United Nations

The United Nations (UN), while not the first institution against international proceeds of crime, but it is the most important to undertake significant actions to fight money laundering on truly worldwide basis. The UN in this regard has a paramount importance for several reasons. For one, the UN is an international organization with a broadest membership. For the other, the UN actively operates against money laundering through the Global Program against Money Laundering (GPML) as part of the UN Office of Drug and Crime.

Additionally and most importantly, the UN has the ability to adopt international treaties or conventions that have the effect of law in a member country once that country has signed the convention. Thus, the UN treaties and conventions will be a major force in harmonizing national laws and enforcement actions around the world.

The United Nations Vienna Convention (1988) and the Palermo Convention (2000) are among the major conventions and benchmarks in the fight against money laundering.

There were other international efforts like measures against the transfer and safekeeping of funds of criminal origin adopted by the Committee of the Council of Europe in June 27, 1980 and in Dec. 1988 The Basel Committee issued a statement of principles i.e. Statement on use of Banking for the purpose of fighting money laundering.

2. 5. 2 Financial Action Task Force (FATF)

Although the UN and other international bodies continued to develop mechanisms to thwart and detect money laundering and latter terrorist financing, it is acknowledged that the lead institution for international initiative to combat money laundering is now the Financial Action Task Force (FATF) on Money Laundering.

Financial Action Task Force (FATF) is an intergovernmental body formed in 1989 by G-7 countries summit in Paris and currently it has 34 member countries. FATF taking the lead and develop a coordinated international response to preclude the use of financial systems from money laundering (http://www.fatf-gafi.org). It is a policy making body in the prevention of money laundering and it defines the problem and encourages the adoption of effective counter measures.

The foundation of the FATF response against money laundering is its 40 Recommendations that were originally issued in 1990 and updated periodically in 1996 as well as in 2003 so as to take in to account changes in money laundering methods, techniques and trends (H.E. Ping, 2008).

Further in October 2001, in the wake of the Twin Tower terrorist attack in New York, FATF expanded its mandate and issued eight special recommendations to cover the issue of terrorist financing. In October 2004, the FATF published a ninth special recommendation making its overall standard-the 40+9 recommendation- a strong framework for governments to develop their domestic legislations against money laundering (FATF Annual Report 2006-2007)

The FAFT standards have been endorsed directly by more than 180 jurisdictions around the world as well as by the World Bank, the IMF and the UN. As of 2010; it comprises 34 member jurisdictions and 2 regional organizations (FATF Annual Report, 2009-2010).

2. 5. 3 The Egmont Group

The Egmont Group is a non-political, international forum of operational Financial Intelligence Units (FIUs) which exchange information to follow the suspected proceeds of crime when funds are located in different jurisdictions

The Egmont Group is a non-political, international forum of operational Financial Intelligence Units (FIUs) which exchange information to follow the suspected proceeds of crime when funds are located in different jurisdictions

2. 6 Regional Anti Money Laundering Initiatives

There are about eight Regional Groups following the approval of the Egmont Group of Financial Intelligence Units. These FATF-Style Regional Bodies (FSRBs) have recently been granted observer status with the Egmont Group. Three regional bodies are found in Africa. East and

South Africa Region (ESAAMLG), Middle East and North Africa Region (MENAFATF) and West and Central Africa Region GABACand GIABA.

2. 6.1 FATF style regional Bodies (FSRBs); are groups organized according to geographical regions. These groups are very important in the promotion and implementation of anti-money laundering laws and combating the financing of terrorism in their respective regions. In the same token, their primary objective is to facilitate the adoption of universal standards as set out by the FATF and how the 40+9 recommendation can be effectively implemented in their regions.

FSRBs are voluntary and cooperative organizations that administer mutual evaluation of their members so that they can identify their weaknesses and take remedies accordingly. Further, FSRBs provide information to their members about trends, techniques and other development in the money laundering arena in their typology reports with special emphasis to their respective regions.

Financing of Terrorism described the roles that banks should play in fighting terrorism financing. Assisting competent authorities through prevention, detection and information sharing, adopting KYC policies and procedures and applying extra due diligence when they see suspicious or irregular activities are the principle provided in the statement (http:// www.wolfsberg-principler.com/frnancing-ferrorism.htm).

2.6.2 Eastern and Southern Africa Anti Money laundering Group (ESAAMLG). Representatives of 13 African countries attended the first such conference in Cape Town, South Africa on 1-3 October, 1996. And representatives of several members of the Financial Action Task Force (FATF) were also present. The Conference agreed on the urgent need to enact anti-money laundering legislation based on the 40 FATF Recommendations and the Commonwealth model laws. It was also agreed that the national strategies for combating money launderings should rely on a multi-disciplinary approach involving officials from the legal, financial and law enforcement ministries and agencies. The Conference strongly recommended the formation of a regional South and Eastern African Financial Action Task Force consisting of representatives from financial, legal and law enforcement authorities to develop a regional strategy to combat money laundering(Journal of African Law, (1997), The Task Force would monitor the implementation of national anti-money laundering measures based on the FATF Recommendations; liaise with other regional and international organizations concerned with combating money laundering; discuss and devise solutions to common problems and consider the desirability of the harmonization of anti money laundering measures. In addition, it was agreed that member states should examine and implement, where appropriate, extradition and mutual legal assistance treaties with a view to enhancing international law enforcement.

2. 7Countries Experiences on Anti Money Laundering

When we see the countries performance and experiences on money laundering activities of selected countries based on the geographical location and economic interactions with Ethiopia, countries are in different performance not only due to their socio- economic and geographical disparities but also level of political commitment of their respective governments.

For the past five years, on average, China, Germany, Netherlands and Saudi Arabia are the top four destinations of Ethiopian export. For the same period, China, Japan, USA and Italy are the major origins of Ethiopian import. Therefore, it is paramount important to check the performance of these countries.

In USA alone, more than one million suspicious activities are reported per annum between 2010 and 2013, the largest report among the sample countries. Japan has also the largest suspicious transaction report next to USA. On the contrary, Saudi Arabia has the least suspicious transaction report. The extent of suspicious transaction report can be determined by the level of crime, the performance and commitment of reporting institutions, the extent of international relations, and the performance of regulatory body and investigators, etc.(FATF mutual evaluation report and annual reports of respective country's FIU).

Among neighboring countries, the government of Djibouti established anti money laundering unit known as Central Bank's Fraud Investigation Unit (FIU) in 2006. But, it is not operationally independent from the country's central bank. Sudan, Ethiopia and Kenya also established their financial intelligence unit in 2010, 2011 and 2012, respectively. On the contrary, Somalia and South Sudan couldn't yet establish their financial intelligence unit. With respect to special AML legislation, those countries who established their financial intelligence unit enact special AML legislation, while Somalia and South Sudan have failed to enact special AML law. Eritrea is exception, where it is unknown whether the country establishes FIU or enacts special AML legislation (2014, INCSR and CGCC assessment report).

Regarding CTR status, except Kenya, Somalia and south Sudan, the rest are undertaking the CTR report. The reason why Kenya does not report CTR is because of its AML legislation that doesn't require CTR. On the other hand, Somalia and south Sudan are the exceptions not to comply with STR requirements, while other countries are conducting STR (ibid).

In order to fight money laundering, countries should have to cooperate with each other and with international law enforcement bodies. With this regard, Eritrea, Somalia and south Sudan are not willing to cooperate with international law enforcement bodies. In addition, Djibouti, Eritrea, Somalia and south Sudan are not a member in any of FSRBs and hence they are not monitored under FATF international cooperation review group. Ethiopia and Kenya are members of ESAAMLG while Sudan is a member of MENAFATF, and hence they are monitored under FATF international cooperation review group (ibid).

From the above discussions, we can conclude that, neighboring countries have higher level of deficiencies that may generate vulnerability in Ethiopia. Especially, Somalia and South Sudan are not able to comply with elementary requirements like establishment of FIU and special AML legislation. On the other hand, other countries having import/export relations in Ethiopia have good performance, at least by STR measurement.

2. 8 Anti money laundering and Counter Terrorist Financing Efforts in Ethiopia.

With a fast-growing economy, Ethiopia has been a country of primary concern vulnerable to money laundering and terrorism financing activities. Subject to the Financial Action Task Force (FATF) global AML/ CFT monitoring process since 2010, Ethiopia has made substantial but not always rapid progress on strengthening its legal framework, building capacity among AML/ CFT stakeholders, and improving coordination and information sharing between relevant institutions.

That progress has been limited not by a lack of political will, but by the generally slow process of institutional reform resulting from the country's cumbersome and underdeveloped bureaucratic system. Ethiopia has ratified the Inter-governmental Authority on Development (IGAD) Convention on Extradition, the IGAD Convention on Mutual Legal Assistance in Criminal Matters, and the UN Convention for the Suppression of the Financing of Terrorism. The country passed its first AML/ CFT legislation in November 2009, which called for the establishment of an inter-ministerial AML/ CFT committee and the Financial Intelligence Center (FIC). This first law was identified as having a number of deficiencies related to the effective criminalization of money laundering and terrorism financing offenses and the implementation of sanctions and asset freezing measures in line with UN Security Council Resolutions 1267 and 1373(LiatShetret ,Tracey Durner ,Danielle Cotter , & Patrick Tobin , 2015).

Ethiopia updated the law in February 2013, effectively and comprehensively criminalizing money laundering and terrorism financing and expanding the FIC's mandate. In June 2014, Ethiopia passed regulation no. 306/2014 detailing procedures for freezing terrorist assets in order to address one of the key remaining FATF-identified deficiencies in the country's AML/ CFT regime. These two legal instruments, combined with the existing customer due diligence (CDD) directive from the FIC, have served to make Ethiopia fully compliant with all international requirements as determined by the FATF (ibid).

In September 2013, Ethiopia was accepted as a full member of the Eastern and Southern Africa Anti- Money Laundering Group (ESAAMLG). As part of the membership process, the FIC is participating in an ongoing mutual evaluation with the assistance of the World Bank and ESAAMLG, which included an on-site visit involving an evaluation team and relevant stakeholders to assess the country's compliance with international AML/ CFT standards.

As a full member of the ESAAMLG, the FIC gains access to a regional network of AML/ CFT professionals and benefits from opportunities for enhanced cooperation with other financial intelligence units (FIUs). In addition, full membership helps to advance Ethiopia's reputation in the international AML/ CFT community and its journey toward joining the Egmont Group of Financial Intelligence Units.

In September 2014, Ethiopia participated in an on-site visit with the FATF for a determination on whether it had fully implemented the required legislative measures and should no longer be subject to the FATF monitoring process. The FATF acknowledged the substantial progress made over the past few years and removed Ethiopia from the monitoring process. The removal represents a big achievement for Ethiopia and provides important recognition from the international community. Established in 2010, the FIC is directly accountable to the prime minister and is responsible for the collection and analysis of suspicious transaction reports

(STRs) and Cash Transaction Reports (CTRs) and their dissemination to law enforcement agencies and regulatory bodies, as well as oversight of reporting entities' com-pliance(ibid).
The Ethiopian government is receiving support from the international community to strengthen its AML/ CFT regime, including targeted technical assistance for the FIC and the Ministry of Justice, such as the development of an AML/ CFT training manual for ministry staff and a series of intensive training sessions and workshops in the capital and rural regions during May 2013–December 2014. Participants in this training have included a broad range of Ethiopian government and civil society stakeholders and covered topics such as financial intelligence, data analysis, regulatory standards and compliance, standard operating procedures, and information sharing and coordination. Following this training, the FIC is developing clear standard operating procedures related to the receipt, analysis, and dissemination of financial intelligence.

Additionally, the FIC has signed memoranda of understanding to promote information sharing and collaboration with the Ministry of Justice, National Bank of Ethiopia (NBE), Ethiopian Revenue and Customs. Authority, Federal Police Commission, Federal Ethics and Anti-Corruption Commission, and Ethiopian Bankers Association. This collaborative training has led to a marked improvement in cooperation and information sharing, particularly between the FIC and the banking sector (ibid).

FIC has the powers and duties to collect, receive, store, survey, analyze and disseminate information as well as ensure compliance by accountable persons with the requirements. Accordingly, banks have been started reporting of suspicious transactions starting from January 2012, and insurances have started in 2014 though Micro Finance Institutions have not started yet. FIC also works to formulate DNFBs and professions CDD directives, so that real estate agents and brokers, dealers in precious metals or precious stones, lawyers and independent accountants are expected to report in the future. FIC received and disseminated several reports in relation with money laundering and the table below describes the number of reports.

Table -3 Reporting Trends from and to FIC (In Number)

Time Period	CTR	STR		Suspected Cases (Disseminated)				
		Banks	Self Generated*	Federal Police	Federal Ethics and Anti corruption	MoJ	INSA	Total
Jan, 2012- Jun, 2012	248,590	29	1	4	-	-	-	4
July, 2012- Jun, 2013	994,517	544	45	9	2	1	2	14
July, 2013- July 7, 2014	1,810,399	574	93	99	-	-	-	99
July 8, 2014- Oct 25,2014	268,386	43	2	13	-	-	-	13
Total	3,321,892	1,190	141	125	2	1	2	130

Source: FIC

*self generated by FIC- from CTR, supervision and Informants

As the table above reveals, with in less than three years, a total of 130 suspected cases were disseminated for further criminal investigations. In addition to suspicious transactions, FIC also receives CTR from banks, and the performance showed a massive improvement. During 2013/14 alone, FIC received a total of 1.8 million CTR from banks. Currently, banks are required to provide CTR in a weekly basis while STR within a maximum of 3 days. In order to check compliance by banks, FIC undertakes on-sight visit with in a time plan and surprise visit if gaps are detected.

FIC, along with other stakeholders and partners conducted National risk assessment on the vulnerability of the country to money laundering and financing of terrorism. Therefore, several deficiencies were addressed by tireless efforts of FIC.

2. 9Theoretical perspectives of money Laundering

Money laundering is the process of converting illegitimately obtained proceeds in to seemingly legitimately obtained proceeds by concealing or disguising the true nature and source, location and ownership of illicitly obtained proceed (AntenehMekonnen, 2014). International police cooperation defines money laundering as: "any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources" (www.inteerpol.int). On the other hand, define money laundering as a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity (www.imf.org).

Before money laundering, there must be other series crime that can generate money for the criminals. If a crime doesn't generate money for the criminals, it may not involve money laundering though it is series crime. Therefore, for money laundering to be takes place, money should be generated from the criminal activity. But, the definition of series crime may vary among country to country, and hence money laundering will vary also (Yunus Husein, 2007).

Generally, money launderers follow three basic stages of money laundering – placement, layering and integration. The placement stage is the initial stage of money laundering that criminally obtained money usually enters the financial system. Under this stage, launderers put the money in several forms so that they are being more liquid. The layering stage is the second stage involves distancing of the dirty money from their source to make using the funds more convenient and reduce the possibility of detection. The final stage is integration and under this stage the laundered money is directly injected to the economy through various forms- for example through "investment" (OECD, 2009).

There are also three components of money laundering in a specific country. The first one is the proceeds of crime from a specific country is laundered within its own territorial boundary. The second component is that the proceeds of crime from one country are laundered elsewhere outside world. Finally, the money from outside world may be laundered in the other country.

Therefore, in addition to internal money laundering, there are also incoming and outgoing money laundering with in a specific country (John Walker, 1995).

Money laundering is international phenomenon and its networks can be quite long. The illicit money generated from one country could be laundered in another country by transferring through banks and other mechanisms. Usually, if a country is haven for criminals, then there is high incoming money laundering. Therefore, international cooperation is highly important to tackle money laundering (Ibid).

2. 10 Empirical studies literature review

There are no as such significant empirical researches made still however, three banks in Lagos State (South Western Nigeria) were used for the study on anti-money laundering policy and its effects on bank performance in Nigeria. Abiol used a descriptive research methodology on three banks in Lagos State (South Western Nigeria). The correlation result indicates the existence of a strong positive relationship between banks performance and adoption of sound money laundering policy with a value of 0.881.

The coefficient of determination also show a value of 0.775, which implies that anti-money laundering policy actually explain and account for about 77.5% of the nature of banks performance in the economy. This result is due to the fact that banks do not need to serve as a channel for illicit monetary activities before they can post a meaningful performance in the industry. Hence, money laundering has negative consequences on the economy which include loss of revenue to the government, worsens criminal rate in the society, and threatens the political stability and internal security of a nation (IdowuAbiola, 2011). This empirical research has good indications for this research especially on the Ethiopian context regarding the commercial banks performances in our country.

An other research conducted on money laundering is by AyeleYitayew in 2014, studied AML/CTF compliance practices in Ethiopia Commercial Banks visa vis opportunities and challenges. His study focused on to examine and measure AML/CTF system implementation and the practices of Ethiopian Commercial Banks. The general objective of the study is to asses AML/CTF legal scopes and to measure its perspective standards that are being practiced in Commercial Banks of Ethiopia.

According to his findings Commercial Banks have been taking their responsibilities in combatting money laundering or terrorist financing compliance preventive measures. Among measures being conducted are; record keeping, updating compliance program, customer identified procedures, STR and CTR monitoring and reporting, availability of board approval policy and procedure, information sharing and resource allocation, etc.

Opportunities are obtained following the success of banks responsibilities like reputation, safety and soundness, risk minimization, preventing launderers from bank services, increasing of profit and number of depositors at the bank. However, Ayele identified some challenges within Commercial Banks such as bank AML/CTF practices among 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.

Ayele's methodology is similar to this research methodology though he has used an exploratory research method besides to descriptive one. His focus is mainly on Commercial banks performance on AML/CTF activities. The result of his empirical research indicates as a medium performance with a mean of 3.2 score.

2. 11 Summary of Knowledge Gap

Binyam Shiferaw in his 2011 research concluded based on his findings that the anti money laundering law of the country in general and those provisions to fight money laundering in the banking sector in particular are not sufficient to fight.

On the contrary, an other 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.

Tesfay G/egziabher, on his 2015 study, mis-pricing, illegal hawala and black market are considered as complex part of trade based money laundering and its relationship with tax evasion is very high. The collaboration and coordination of stakeholder agencies also have been low in order to prevent and suppress it.

My research fills the legal framework gap identified by Biniam. Because his study was conducted in 2011 after the Ethiopian government opening as a big agenda of money laundering and its threats and declaring the first anti money laundering legal proclamation in 2009. Hence, legal frameworks were not completed. This study incorporates the legal frameworks launched to 2014 such as Proclamation No 780/2013: Prevention and Suppression of Money Laundering and the Financing of Terrorism Replacement of proc.No.657/2009, Regulation No.306/2014 detailing procedures for freezing terrorist assets, Foreign Exchange Directive , 2013 for the use of Acceptance of Credit Cards and Cash Notes and Proclamation No 780/2013.

Ayele's and Biniam have different finding results regarding on the performance of commercial banks on AML activities. The first has a finding of medium level bank's performance and the later put as poor performance level. Hence, in this research efforts will be made to reconcile these differences and reach on the real figure of bank's performance. An other research gap that will be addressed is the Non-bank institutions or stakeholders performance of cooperation, awareness, information exchange level, and commitment as well as the general performance will be covered that are not covered and not addressed by both researchers. The research variables such as vulnerability factors, methods and crimes induce for money laundering, major challenges faced at the national level for anti money laundering are discussed rather than focusing only on the trade based money laundering techniques conducted by Tesfaye's research.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. Research Design and Methodology

3. 1 Research Design

This study used a descriptive survey design which is to collect detailed and factual information that describes an existing phenomenon (Ezeani 1998).

The research design is a descriptive research. In Descriptive study both quantitative and qualitative method will be used to analyze the data collected. Qualitative for primary and quantitative for secondary data collected from different institutions that are useful for the existing money laundering situation under being studied**.**

This study utilizes cross-sectional survey because it helps to collect all relevant data at a single point in time and it is useful in such type of research which is limited in time frame and finance to conduct longitudinal study.

3. 2 Research Method

The research method is both qualitative and quantitative research. Quantitative approach of doing research will be 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 that data. Further more, qualitative research method will be applied to analyze the primary data will be obtained through questionnaire and interview data collection methods.

3. 3 Data Collection Procedure (Sampling Technique)

The target population of the study was banks staff and non-bank personals in Addis Ababa. The capital city is chosen to narrow the geographical data and be manageable in terms of cost and time and also most of institutions head quarter is located in Addis since the data is collected from there. From each institutions demonstrable experience, better education and knowledge of the subject matter in the area of money laundering is mandatory criteria of selection which is expected from respondents. Banks personals are mostly Risk and Compliance Directorate directors and managers who are specialized on Anti Money Laundering.

Most of respondents are well qualified personals in Anti Money Laundering with in the selected seven institutions. These are FIC, Federal Ethics and Anti corruption commission, Federal police, NBE, MoJ, ENSA and all 17 public as well as private Commercial Banks in Addis Ababa. The researcher uses purposive sampling technique to collect the primary data from the total population of about 81 qualified and well trained personals of the above institutions composed with an average of 3 staff from each 17 banks(51 respondents) and five from non-bank sectors(30 respondents).. Purposive sampling technique was used to collect the primary data from the total 81 population and 69(92%) questionnaires were returned from the total 75(92.6%) distributed sample questionnaire. Of these, 8 (11.6%) were females; while 61(88.4%) were males. The academic qualifications of the participants are: TVET. Diploma, B.Sc., B.A, LLB.and M.A. Work experience of respondents is 40.6%, 33.3%, 26.1% for more than 10 years, 5-10years & less than5 years respectively (Appendix-II).

3 .4 Data Collection Techniques

Considering lack of available data in Ethiopia regarding money laundering, empirical investigation is very important. Because of this reason, the appropriate research strategy for this study is mutually reinforcing ''triangulation'' method. Therefor the data collection techniques are Primary and Secondary data collection methods.

The Primary data collection methods are personal observation, questionnaire and un-structured interview. The questionnaire is developed through readings such as FATF recommendations, Basel Committee core principles and training opportunities. Interview is self prepared for Financial Intelligence Center, Federal police and National Bank of Ethiopia personals who have a better knowledge about the subject matter. Personal observation focuses on Commercial banks Forex bureaus and Authorized Dealers licensed by NBE. Questionnaire includes all the seven institutions mentioned above. The questionnaire has four parts based on 5 point Likert Scale and open ended explanations. To distribute the questionnaire, the researcher deploys Non probability sampling technique of purposive sampling specifically expert sampling. This type of sampling technique is suited to assemble sample persons with known or demonstrable experience and expertise in some area of money laundering in this case. Therefore, bank Directors and senior experts from Commercial Banks and the respective authorities in the rest non-bank institutions who are having medium and high knowledge of money laundering were chosen and the questionnaire prohibits the respondent to fill if they have low awareness on (anti) money laundering. Un-structured interview will be forwarded on the selected institutions such as NBE and Financial Intelligence Canter experts on money laundering. Interview will also be in the form of open ended questions as another data collection technique.

Secondary data collection method will also be employed using books, Journals, Proclamations, Reports, Publications, Working papers and etc. related to money laundering in general and as the peculiar features of the country in this activity.

3 .5 Method of Analysis

The data collected by using different methods will be analyzed by using SPSS 20 software version package, and the methods of data presentation are tabulation and graph. Cross-tabs, frequencies and percentages calculations are data analysis instruments to analyze in a precise and simplified fashion.

CHAPTER FOUR

ANALYSIS OF MONEY LAUNDERING AND ITS CONESQUENCES IN ETHIOPIA

Introduction

This chapter focuses on the results and discussion of analysis. There are about five categories of discussions. The vulnerability Factor has a checklist of 8 factors that may contribute to make Ethiopia vulnerable to money laundering. Besides, peculiar features in Ethiopia that may contribute to the problem like illegal hawala and black market foreign exchange are addressed. Other part of discussions are such as status of crimes on money laundering like corruption, tax evasion and human trafficking that contributes are among 11 variable factors. Methods of money laundering and banks performance on anti money laundering have 8 variable factors for each. Challenges to fight money laundering in Ethiopia like lack of political will, weak bureaucratic system, and the generally slow pace of reform and poor performance of institutions are included. Finally, consequence of Money Laundering which has also different socio-economic crisis will be discussed in detail.

4. Results and Discussions

4. 1 Factors contribute to Money Laundering

4. 1.1 Vulnerability Factors

The countries' socio economic and legal framework may be haven or stiff for money laundering and there is no precise measure of vulnerability for any jurisdiction. A checklist of 8 factors that may contribute to make Ethiopia vulnerable to money laundering was provided and the respondents were expected to scale as very low, low, medium, high and very high. Accordingly, lack of or inadequate KYC requirements, lack of effective monitoring of cross border transactions, lack of awareness and failure to criminalize money laundering are high among the listed vulnerability factors. On the contrary, the vulnerability of the country due to rigid bank secrecy (that prohibit reporting of customers' information to the competent authority) and failure to keep customers' information for reasonable period are relatively low. For the question to identify some other vulnerability factors, the respondents supplemented as conflict of interest between compliance department and top management of banks (especially private banks).

Table-4 Vulnerability Factors

	Very Low		Low		Medium		High		Very High		no information	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
rigid bank secrecy rules	6	9.1	35	53.0	16	24.2	4	6.1	5	7.6	0	0
lack of or inadequate KYC requirements	0	0	9	13.4	5	7.5	33	49.3	20	29.9	0	0
lack of effective monitoring of cross border transactions	0	0	6	9.0	2	3.0	38	56.7	21	31.3	0	0
no requirements for reporting of large cash transactions(greater than 300,000 birr)	20	29.4	29	42.6	7	10.3	8	11.8	4	5.9	0	0
failure to keep customers information for reasonable period	14	20.9	25	37.3	5	7.5	16	23.9	7	10.4	0	0
loose control of banks by the controlling authority	5	7.9	20	31.7	4	6.3	23	36.5	11	17.5	0	0
no or lack of external cooperation	1	1.5	19	27.9	31	45.6	15	22.1	2	2.9	0	0
failure to criminalize money laundering	3	4.4	10	14.7	18	26.5	32	47.1	5	7.4	0	0
lack of awareness	2	2.9	2	2.9	0	0	41	60.3	23	33.8	0	0

Rigged Bank secrecy rules

About 35(53%) respondents reply as low, 16(24.2%) medium. Very low, high and very high show 9.1%, 6.1% and 7.6% respectively which is less than 10% of each. Three respondents are invalid from the total 69 respondents. Therefore rigid bank secrecy rules could not prohibit for suspicious transaction reporting and respondents disagree on its inhibition.

Lack of effective KYC requirements

With this respect it is relatively high with 33(49.3%) respondents to comply with inadequate KYC requirements and very high 20(29.9%) respondents. About 9(13.4%) and 5(7.5%) score show as low and medium with a lessor percentage of its in adequacy. Therefore, inadequate KYC requirement could be considered as vulnerability factor with a mean of 3.53(see Appendix-iii) above medium level and information about customers is minimal and that aggravates the risk

Lack of effective monitoring of cross border transactions

As it is indicated on the above table lack of effective monitoring of cross border currency transaction is a threat as money laundering. About 38(56.7%) of respondents replied as high and 21(31.3%) and very high where as only 6(9.0%) and 2(3.0%) respondents agree on the failure of effective cross border transaction control. This result is also similar to the result of methods that criminals use illegal import-export transaction stated on P. 52. Finally, about 2 (2.9) respondents is in valid from the total 69 respondents. The finding result shows lack of effective monitoring of cross border transactions is above a medium level with 56.7%and 31.3% as very high could be considered as a threatening factor.

Reporting requirement for large cash transaction

Reporting requirement for large cash transaction is low and 29(42.6) and 20(29.9%) respond as low and very low respectively. But about 7(10.3%), 8(11.8%) and 4(5.9%) respondents reply as medium, high and very low respectively. Hence the level of requirement falls on the low status.

Failure of keeping customers information

Failure of keeping customers information is low with 25(37.3%) and very low as 14(20.9%) respondents replied, On the contrary, 16(23.9%) of respondents replied as high and 7(10.4%) as very high. Hence, keeping of customer's information is good since the majority of very low and low cumulative figure indicates above 58.2% as not a threat.

Lack of external cooperation among institutions

In this regard, among institutions to cooperate and fight money laundering is medium with 31(45.6%), high with 15(22.1) and very high with 2(2.9%) with cumulative 70.6% though about cumulative number of very low and low indicates as 29.4% of less threat. This indicates the level of cooperation among institutions is very low and it is a threat for prevailing of money laundering.

Failure to criminalize money laundering

Failure to criminalize money laundering is high with a high percentage score of 32(47.1%) and 5(7.4%) as very high and cumulative figure of 54.5% where as the cumulative figure of very low, low and medium indicates as 45.6%. Hence it is considered as a vulnerability factor.

Lack of awareness

Lack of awareness Level is high with 41(60.3%) and very high with 23(33.8%) with a cumulative percentage of 94.1%with a mean of 4.2(see appendix-iii). This result indicates the presence of low awareness about money laundering.

4. 1. 2 Peculiar Features contribute to Money laundering in Ethiopia

- **Illegal Hawala Money Transfer Offices**

Sources from Ethiopian Federal Police commission crime investigation sector , informants from FIC and bank respondents indicates the level of illegal Hawala transfer in Ethiopia is very high. External agents are based mostly in South Africa, Arabian countries and Europe especially Sweden. Local agents are located in Addis Ababa Merkato area and recently on the streets side. Illegal hawala agents operate their activity after receiving the beneficiaries address from foreign agents and pay in different forms like physical cash payment and using bank transfer for regional beneficiaries. Now a days suspected individuals who perform payment using banks for transfer are changing their tactic by depositing into banks as ‘’self’’ instead of using transferring method the amount to the beneficiaries through banks. Because, banks always do not request an ID for depositors like withdrawers. Accordingly to the Federal Police, Tactic Crime investigation Directorate, several people are engaged in secret illegal money transfer activity. The Federal Commission recurrently sends to NBE a request letter to confirm these people under police custody & investigation whether they have a forex bureau license from NBE to operate in money transfer activity or not. Most of the time suspects surrendered with a large amount of money but with out a document that indicates beneficiaries list along with the payment they deserve. Number of suspected individuals (2012-2015) is 229 individuals (Federal Police Interview, March 2016).

Factors that motivate beneficiaries to use illegal hawala system are marginal profit per dollar between official exchange rate and the black market, speed of delivering time and lesser amount of service charge comparing to the banks charge. On the other hand agents those who are based abroad collects the FCY from the diaspora or others for the purpose of merchandise trade after opening Letter of Credit (L/C) on behalf of their agents who live in Ethiopia. Therefore, they can import goods easily with out any shortage of FCY when other domestic legal merchants suffer with the scarcity. Total amount of birr surrendered and exhibited by Federal police in 2015 is about 7 billion where as total amount of birr paid in illegal hawala transfer reaches up to 5 billion birr(ibid).

- **Black Market Foreign Currency Exchange.**

This type of illegal foreign currency exchange activity is performed in a daily basis at any where at any time in the country. But it is difficult to trace exactly where the transfer made since it is made in clandestine situation. The cause of the problem is huge amount foreign exchange scarcity faced the country. In the country there are different sources of FCY. Repatriated from export of goods & services, remittance inflow, Foreign Direct Investment (FDI) and Fund in the form of Grant and Loan(Annex NBE 2014/2015, annual report)(Annex-E).

Amount of Foreign currency generated in 2014/15 is declining especially from export and remittance services. On the other hand balance of payment and balance of trade gap is increasing dramatically. Therefore this deficit financing of payment indicates the presence of high FCY scarcity in the country and also could lead to the high demand of Fcy. This negative relationship contributes to the flow of money into the black market and then to the money laundering activity wildly in the country (Appendix -IV).

- **Licensed institutions in operating of foreign currency exchange.**

Foreign Exchange Bureaux

Foreign exchange bureaus license is given only for commercial banks with NBE FXD/43/2013 to sell and purchase from FCY holders. But forex bureaus located in hotels and at air-port terminal have problems when they buy foreign currency from customers. Because the chance of buying from Fcy holders without giving a receipt for foreign currency bought is high and goes to personal consumption and surges to the black market foreign currency exchange instead of depositing to Commercial Banks. Assigned individuals of the forex bureau staff are exposed to this activity since there is no any controlling mechanism (Field visit personal observation and beneficiaries).

Table- 5 Banks Forex bureaus at Air-port Terminal & Hotels, 2015

No.	Bank	Airport	No.	Hotel	No.
1	Commercial Bank of Ethiopia	Bole airport	2	- Ghion Hotel	1
2	Dashen Bank	Bole airport	3	- Sharaten - Ghion - Inter Continental - Beshale	4
3	Nib International Bank	-	-	- Hilton	1
4	Wegagen Bank	Bole airport	1	- Radison Blue - Capital - Harmoney - Haile Hotel & Resort - Planet hotel	5
5	Abay Bank	-		- Ghion	1
6	Abyssinia Bank	Bole Airport	1	- Yod Abyssinia	1
7	United Bank	-		- Hilton	1
		Total	**7**	-	**14**

Source; Compiled from Foreign Exchange& Reserve Mgt. Directorate, NBE

Note:- Total number of Banks forex bureau in the country is 1190, in 2015.

- **International Money Transfer Agents working with commercial banks**

NBE gives a license for International Money Transfers Agents to work against with commercial banks with NBE/FXD/2006 Directive. The purpose of these money transfer agents is to provide a remittance service in local currency to the beneficiaries for those who have remitted in Fcy through banks in SWIFT massage payment from abroad.

Money transfer operations office location could be classified into two. Those working with bank branch offices and others operates independently in their office with their own staff. Problems are observed on those work independently with their own office while engaging in receiving of Fcy from local customers and of Fcy from black market and sending a message through e-mail to their sister company abroad in order to pay equivalent amount of Fcy to the beneficiary abroad. In other words they preform illegal money transfer activities beyond the licensed operation by

NBE. The reverse practice is made while the money transfer agent sends e-mail message the name at local beneficiaries to the local money transfer agent after collecting Fcy from beneficiary's parents but without sending Fcy to the country. In this case large amount of Fcy remains abroad instead of inflowing to the country. Total number of RSP is 71. All RSPs are Working with Commercial banks & Ethiopian Postal Enterprises and their number reaches to 232 as 2015 NBE record(ibid).

- **Tour Operators and Shops or Authorized Dealers.**

Total number of authorized dealers (shops) is also 211. Dealers at Bole Air- port Terminal are 30 and there are 7 unlicensed authorized dealers out of this figure. Authorized Tour Operators in the Country are 14.

These groups are licensed to give services and receive in Fcy notes for selling of goods to their customers based on the NBE Directive FXD/42/2013. But the problem is similar which is happening and observed in Foreign exchange bureaus operators. These agents have the authority to accept of Fcy notes and are required to convert all Fcy collected during one business day at the nearby forex bureau within two working days, (FXD/42/2013 article 4.5.4.).

- **Tour Operators and Shops or Authorized Dealers.**

Fcy outflows from the center to the periphery in the form of black market. Sometimes border customs office at Togowuchale(Ethiopia and Somali land border) surrenders while the Fcy is in transit from the center to the border. The other evidence is huge amount of local currency daily transfer in bank hawala services from a few individuals account after depositing in a few days. The source of deposit is conversion(exchange) of Fcy into birr with a wide margin from the legal and official selling rate.

Export in advance payment is another source of the problem. Fcy obtained from black market at the center is used for export in the form of advance payment. This is made considering of the Fcy source from the importer trade partner abroad and sent the money in advance before the importer delivered from the exporter country customers. It has also a chance to declare at boarder customs office the same amount of Fcy money more than twice as it is repatriated in different times before it is converted to local currency at the nearly border commercial bank branches. Unless and other wise have a police escort from the Customs office until reaches to the nearby commercial bank. This illegal trade drains the country's export commodity resource without earning equivalent amount of hard currency. Some CBs also cooperate and involved to issue a permit for the export of goods (informants)..

It is possible to substantiate the above findings with other justification. Dire dawa main branch (CBE) serves as the issue holding branch of NBE to circulate local currency of birr for many CBE branches located in the eastern region of the country(in this case specifically Somalia regional state). All branches have a problem of local currency supply from the center. But it is different for branches located specially at Jijiga and Togowuchale areas. These branches have always a complaint to the issuing holding branch of Diredawa to lodge a huge amount of birr from their branch to the issue holding branch which is an excess in their branch custody holding limit (Informants on field visit, 2010).

- **Air-port Terminals**

Checking of travellers and their luggage for Fcy holdings is not tightened at Bole international airport. It is possible to hold Fcy and exit from the country beyond the NBE Fcy cash holding limit of travellers abroad. For those personals who have a diplomatic immunity and VIP people have advantage to withdraw Fcy from the country is more easier task unless they sign on undertaking note as it is being practicing in some other countries (Foreign Travellers interview, 2015).

- **Forgery Currency Notes**

Counterfeit tender Note circulation is another threat that could aggravates the money laundering activity in Ethiopia. It is a daily business and performed in underground with unknown individuals. Forged currency notes are made in the form of different countries currency type. The major ones are Ethiopian birr and American US dollar. Amount of forged birr currency surrendered by police and banks reaches up to four million and the US dollar six million (NBE , 2015). This kind of threat has been explained also by FIC and commercial banks informants in the course of this research.

4. 1. 3 Status of Crimes on Money Laundering

Money Laundering and crime have a direct and indirect relationship. The following table indicates a number of criminal factors that could contribute for the problem in Ethiopia.

Table-6Status of Crimes on Money Laundering

	Very Low		Low		Medium		High		Very High		no information	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Corruption	0	2.9	0	2.9	16	23.2	41	59.4	12	17.4	0	
tax evasion	0	0	4	5.8	14	20.3	34	49.3	17	24.6	0	
Contraband	4	5.8	10	14.5	27	39.1	21	30.4	7	10.1	0	
human trafficking and human smuggling	0	0	6	8.7	15	21.7	41	59.4	7	10.1	0	
drug trafficking	10	14.5	27	39.1	14	20.3	14	20.3	4	5.8	0	
illegal arms trafficking	12	17.4	13	18.8	31	44.9	11	15.9	2	2.9	0	
theft/fraud	33	47.8	22	31.9	7	10.1	5	7.2	2	2.9	0	
counterfeiting	16	23.2	31	44.9	22	31.9	0	0	0	0	0	
killing person	12	17.4	28	40.6	24	34.8	0	7.2	5	0	0	
usury	6	8.7	16	23.2	38	55.1	7	10.1	2	2.9	0	
receiving money for illegal purpose	20	29.0	35	50.7	7	10.1	5	7.2	2	2.9	0	

Corruption is high with 41(59.4%), very high 12(17.4%) and medium with 16(23%). The cumulative medium, high and very high percentage of corruption level as a crime for money laundering is 88%. Therefore, it could be considered as a big threat for money laundering though only about 5.8% respondents replied as not a problem factor.

Tax evasion is also a threatening crime factor for money laundering. The following table shows about 34(49 17(24.6%) as very high and high 34(49.3%) with a cumulative percentage of 73.9%. Only 4(5.8% low an 4(5.8%) low and 14(20.3) medium result.

Bellow in the table the level of corruption is high with 41(59.4%). The cumulative medium and high percentage of corruption level as a crime for money laundering is 82.6%

Contraband is also another factor which aggravates money laundering. About 27(39.1%) of respondents score medium and 21(30.4%) as high and very high as 7(10.1%) though only 4(5.8%) respond as very low and 10(14.5%) as low. Therefore, contraband has a significant crime factor for money laundering.

Human trafficking and smuggling is high as the result shows in the table below, 41(59.4%) respond as high 15(21.7%) medium and 7(10.1%) as very high with the exception of 6(8.7%) as a low response

Drug trafficking is also another crime factor even if respondents gave their comment with 27(39.1%) as low level of drug trafficking and a lessor threat than illegal arms trade which is a higher crime threat than drug trafficking in Ethiopian case of money laundering.

Other crime factors such as ; theft/fraud, counterfeiting, killing of person, illegal arms trade and receiving money for illegal purpose indicate as low with a percentage of 22(31.9%), 31(44.9%), 28(40.6%), 31(45%) and 35(50.7%) respectively except usury with 38(55.1%) medium level of criminal status that contribute for money laundering in Ethiopia.

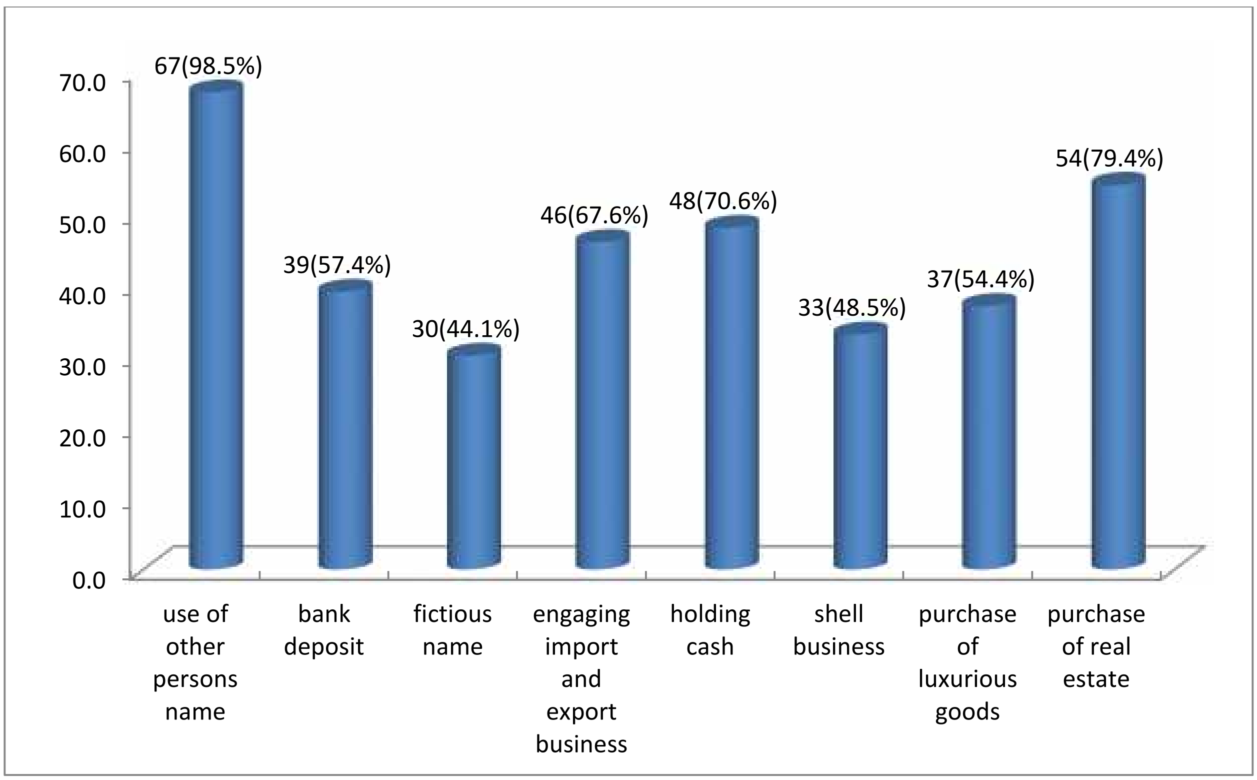
4. 2 Methods of Money Laundering

The process of laundering illicit money would be concluded when it is integrated in to the legitimate economy through different methods and techniques. Depending on the existing situation and socio economic structure, there may be different methods in different countries. The methods that launderers use in Ethiopia are an important issue to tackle the problem. Therefore, 68 respondents from banks and other concerned institutions were requested to identify the methods in Ethiopia (most probably the methods that they face in their day to day activities). The responses are summarized in figure 1.

Use of other persons' name is one of the successful methods of money laundering. 98.5 percent of respondents believed that money launderers are keen to use other persons, you would not quit expect. Usually, other persons are families, friends and close relatives of the criminals. The real beneficial of the legitimate business or bank account are not the owners rather there are criminals behind that legitimacy. Therefore, we can conclude that, use of other persons' name is relatively the most widely used method of money laundering in Ethiopia.

Real estate transactions also cloak illicit sources of funds or serve in the legitimization process. That is why Ethiopian anti money laundering law grouped real estate agents and brokers under DNFBs and professions and require identifying the parties when involved in transactions concerning the buying or selling of real estate. But, DNFBs and professions failed to report suspicious transactions and identifications since they are waiting for the distribution of FIC procedure and directives. Not surprisingly, 54 respondents, i.e., 79.4 percent’s believed that purchase of real estate is being used as one of money laundering methods in Ethiopia.

Figure-1 Methods that criminals use and Percentage of respondents



Use of false invoices by import/export companies has proven to be a very effective way of integrating illicit proceeds in to the legitimate economy. According to FATF, trade based money laundering represents an important channel of criminal activity with a growth and complexity of world trade; and as standards applied to other money laundering techniques become increasingly effective, the use of trade based money laundering can be expected to become increasingly attractive. In contrast, the Economist, under May 3rd 2014 edition, discussed how trade is the weakest link in the fight against dirty money. Nevertheless, 67.6 percent of questionnaire respondents believed that the criminals use international trade to launder their illicit funds in Ethiopia.

Bank deposit has contributed as 57.4 percent and purchases of luxurious goods 54.4 percent. The first registered money laundering has been takes place in USA when the Mafias want to show their illicit money as it is emanated from laundering business. Since then, using shell business is recognized as one of the methods of money laundering. In this case the true objective of the owners is not to make profit, rather to disguise the original source of the fund. Usually they co-mingle the dirty money with the legitimate one and it is very cumbersome to split. Front business may include restaurants, supermarkets, laundry business and other legitimate businesses. In an attempt to check the prevalence of shell business money laundering, 33 of 68 (48.5 percent) respondents believed that shell business would be exercised to launder illicit money in Ethiopian case. Therefore, banks have to emphasize whether cash turnover is compatible with the potential of that legitimate business. Generally, there is a method of front business money laundering in Ethiopia.

Sometimes, the criminals want to disguise time and location of their illicit fund by holding cash on their hand and wait until the opportunity will come to integrate in the legitimate economy. But, it is more risky and hence relatively less preferable than the above methods. With this respect, 70.6 percent of respondents believed the prevalence of cash holding method of money laundering. On the other hand, fictious name method of money laundering is supported by 44.1 percent of respondents. The other methods- purchase of luxurious goods and bank deposit- are relatively less frequent, according to respondents.

Table -7 Methods of money laundering classified by respondent's institution

		use of other person's name	bank deposit	fictious name	engaging import and export business	holding cash	shell business	purchase of luxurious goods	purchase of real estate
Bank	Count	50	32	23	32	40	24	29	43
	Percent	98.0	62.7	45.1	62.7	78.4	47.1	56.9	84.3
Non Bank	Count	17	7	7	14	8	9	8	11
	Percent	100.0	41.2	41.2	82.4	47.1	52.9	47.1	64.7

If the respondents are disaggregated by their institution, we can get closely similar results. Non-bank respondents agree that use of other persons' name and engaging import and export are supported by 100 percent and 82.4 respectively followed by purchase of real estate 64 percent. Similarly, according to bank respondents, the top three methods of money laundering are use of other persons' name, purchase of real estate and shell holding cash with a percentage share of 98, 84.3and 78.4, respectively.

4. 3 Banks 'Performance on Anti Money Laundering

Empirical evidences show us that, the lion share of illicit fund is laundered through financial institutions particularly through banks. Among three stages of money laundering two of them -placement and layering are undertaken by banks. Therefore, to prevent the susceptibility of banks, proclamation No 780/2013 and CDD of banks directives No. SBB/46/2010 enforces banks to play their role via various requirements. This part tries to assess the performance of banks in accordance with some requirements.

Table-8 Banks Performances on Anti-Money Laundering in Ethiopia

	very low		low		medium		good		very good	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
reporting suspicious transactions	1	2	11	21.6	10	19.6	19	37.3	10	19.6
reporting transactions above cash limit	0	0	1	2.0	2	3.9	11	21.6	37	72.5
keeping records of customer for long period	0	0	5	9.8	4	7.8	10	19.6	32	62.7
KYC	3	5.9	7	13.7	8	15.7	26	51.0	7	14.0
PEPs enhanced CDD	13	26.5	12	24.5	7	14.3	12	24.5	5	10.2
conducting continuous CDD	6	11.8	10	19.6	11	21.6	20	39.2	4	7.8
assessing new bank products and services in accordance with AML	8	16.0	6	12.0	13	26.0	17	34.0	6	12.0
providing training for staffs and management members in relation with AML	0	0	0	0	13	25.5	15	29.4	23	45.1

Reporting of suspicious Transaction

As it is indicated in the above table about 1(2%) respondents say very low and 11(21.6) low. The cumulative percentage of respondents as very low and low shows as 23%. About 10(19.6) respondents says medium and cumulative percentage of very low, low and medium indicates as 43.1%. About 19(37.3) says good and the total percentage of very low, low, medium, and good show 80.4%. About 10(19.6 say very good and the cumulative percentage of very low, low, medium, good and very good shows as 100%. Finally about 18 (26.1) respondents are non bank respondents that are not prescribed to fill the questionnaire format in this case from the total 69 respondents

With this respect, around 21.6 percent of banks are below medium level performance and (19.6 percent) are very good in reporting suspicious transactions. Though banks are expected to submit promptly reports, (23.5 percent) are not good enough. We can observe that the performance of banks to report suspicious transactions is not satisfactory and has with a mean of 3.51(Appendix-iii).

Reporting Suspicious Transaction above Cash limit

Not only suspicious transactions, banks are expected to report large cash transactions more than birr 300,000 or USD 10,000. Unlike suspicious transactions report, banks are in a better position to report large cash transactions with a mean of 4.76(Appendix-iii**).** It should not be undermined because banks may use not reporting large cash transactions as marketing strategy to attract customers and the others may follow. Sometimes, customers are not willing for the report of their transactions even if they are legitimate. If there are banks not reporting large cash transactions, then customers may switch to those banks. Then it creates unfair competition, and finally other banks may not report their customers' transaction to FIC. But in aggregate level, the current performance is very good with a total percentage of 72.5% as it is indicated above in the table.

Keeping records of customers for long period

Banks record keeping is very good with 32(62.7), good10 (19.6%), medium 4(7.8%) and low with 5(9.8%).This indicates the presence of good bank's record keeping.

Know Your Customer (KYC)

Know Your Customer (KYC) requirement is also an essential requirement of AML efforts. Knowing who you is doing business which is not only important to combat money laundering but also to analyze and prevent other risks associated with customers. KYC is also very important to undertake CDD when ever suspicious transactions are identified. According to CDD of Banks Directives No. SBB/46/2010, sound KYC policies and procedures constitute an essential part of internal control and risk management aspects of banks. With this respect banks are relatively good with 51% respondents and 14% as very good to comply with KYC requirements with a mean of 3.53 (Appendix-iii).

Politically Exposed Persons (PEPs)

Politically Exposed Persons (PEPs)are involved in generation of illicit money especially corruption generated money. Politically exposed person means any natural person who is or has been entrusted with prominent public functions in any country or in an international organization as well as a member of such person's family or any person closely associated with him. Though, FIC is responsible to identify and distribute PEPs for banks and the procedure how to conduct CDD intensively, PEPs are not identified yet. This is because of FIC wants to incorporate some middle level officials of land administration, and other vulnerable institutions. Out of total banks 26.5 percent are very low, 24.5 percent low and 14.3% as medium in relation with enhance CDD for PEPs. As the table 7 above depicts, only 24.5 percent of banks are good and 10.2 percent very good with a mean of 2.67(Appendix-iii).

Conducting continuous CDD

CDD is another key part of customer identification, internal control and risk management of banks. Regardless of the amount of money, banks shall undertake CDD measures when establishing business relations with a customer or there is a suspicion of money laundering or terrorist financing and if they have doubts about the veracity or adequacy of previously obtained customer identification data. By classifying customers as high risky and less risky, financial institutions and DNFBs and professions shall conduct enhanced CDD measures in the case of identifying higher risk of money laundering or financing of terrorism or may conduct simplified CDD measures in the case of identifying lower risk of money laundering or financing of terrorism. This requirement is also very important to mitigate risks other than money laundering. The finding results are presented above on the table.

As it is indicated in the above table about 6(11.8%) respondent say very low and 10(19.6) low, with a cumulative percentage of 31.4%. About 11(21.6) respondents say medium and cumulative percentage of very low, low and medium indicates as 52.9%. About 20(39.2) says good and the total percentage of very low, low, medium, and good show 92.2%. About 4(7.8) say very good and the cumulative percentage of very low, low, medium, good and very good shows as 100%. Finally about 18 (26.1) respondents are non bank respondents that are not prescribed to fill the questionnaire format in this case from the total 69 respondents

Article 6(7) of proclamation No 780/2013 declared that Financial institutions and DNFBs and professions shall identify and assess the risks of money laundering and financing of terrorism that may arise from the development of new products, delivery mechanisms and business practices, or from the use of new or developing technologies for both new and pre-existing products and take appropriate measures to manage and mitigate those risks. Recommendation 8 of FATF emphasized that financial institutions should pay special attention to any money laundering threats that may arise from new or developing technologies and take measures if needed, to prevent their use in money laundering schemes. The aggregate performance of banks is somehow good having a mean of 3.14 (Appendix-iii). Therefore, it is possible and important to comply with Basel committee principle 4 by ensuring that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures (Basel committee, 2003)

Assessing new bank products and services in accordance with AML

With this respect banks are on a medium level with 13(26%) and very good with 17(34%) even if only 6(12%) are on a very good position and 8(`16%) and 6(12%) fall on very low and low level results.

Providing ongoing training for officials and employees

The final requirement is providing ongoing training for officials and employees so as to refresh and make their knowledge and experience up to date and hence to cope up with new developments of money laundering. In addition to the existing staff, new employees should be required to attend training as soon as possible after being hired. Under internal prevention programs, banks are expected to implement ongoing training for officials and employees including training to assist them in recognizing suspicious transactions and activities that may be linked to money laundering or financing of terrorism.

In the questionnaire that enquires the status of banks to provide training, 13(25.3%), 15(29.4%) and 23(45.1%) respondents respectively respond as medium, good and very good respectively with a mean of 4.2(Appendix-iii). Risk and compliance directors and/or compliance division heads are expected to have high awareness since any measures that banks undertake is determined by themselves.

4. 4 Challenges to Fight Money Laundering in Ethiopia

Although Ethiopia has made substantial improvements in its legal framework and in financial institution compliance, according to the finding results obtained from the primary data respondents view and secondary data have the following problems.

1. Designated nonfinancial businesses and professions remain an area of money laundering and terrorism financing vulnerability.
2. Particularly because Ethiopia is a hub for cross-border trade in East Africa and the Greater Horn of Africa region.
3. The lack of software presents one of the biggest challenges to FIC staff in creating a more robust analysis process and streamlining record keeping and case management. Additionally, the Financial Intelligence Center (FIC) is still developing its analytical capacity through continued staff training and the implementation of a comprehensive AML/ CFT software system. (ibid).
4. A weak bureaucratic system and the generally slow pace of reform in Ethiopia continue to present challenges although Political will remains high across some institutions, and considerable achievements have been made in the implementation of AML/ CFT efforts.
5. These issues are further compounded by high turnover rates in working-level positions, coupled with the lack of AML/ CFT training in the country's graduate-level academic institutions.
6. Given its strategic location within the Horn of Africa, Ethiopia is vulnerable to transnational smuggling activities and trafficking in narcotics, persons, arms, and animal products. Additionally, Ethiopia is home to high tariffs that may further encourage customs fraud and trade-based money laundering. These vulnerabilities have contributed to a huge loss of revenue for the growing nation via illicit financial outflows.
7. Ethiopia was ranked 39th out of 144 countries in terms of the value of these illicit flows, and although adequately measuring these flows is difficult, some have estimated a loss of $5.6 billion in 2010 alone. This revenue loss presents a serious challenge as Ethiopia seeks to continue its economic growth and pursue middle income status pursuant to the government's 2010 "Growth and Transformation Plan." Illicit financial flows also represent a large vulnerability for the AML/ CFT regime as much of these funds may be the result of money laundering, tax evasion, and international bribery.

8. In recent years, Ethiopia has embraced a managed but more market-oriented system that included an expansion in the number of domestic banks. Yet, the country's financial system remains closed to foreign investment and is comparatively less liberal than its regional peers. There are 18 commercial banks, two of which are state owned, and one state-owned development bank. The largest bank is the state-owned Commercial Bank of Ethiopia, which held approximately 70 percent of the industry's total holdings as of May 2013.

   In light of this tightly controlled, formal financial sector, stakeholders believe that the risk of money laundering and terrorism financing cannot lie within the country's financial institutions and instead resides in informal value-transfer services such as hawala. Total remittance inflows to Ethiopia have increased drastically from $33 million in 2002 to $624 million in 2012. Ethiopia continues to closely monitor remittance organizations for money laundering or terrorism financing abuse and has closed a number of illegal hawala operations in recent years.
9. The vulnerability of DNFBPs, largely within the gold and livestock trades, to money laundering and terrorism financing is a particular concern in Ethiopia. Because the country is a hub for cross-border trade in East Africa and the Greater Horn of Africa region, engaging practitioners and businesses in these sectors is increasingly important in combating money laundering and terrorism financing crimes at a regional level.
10. Though Ethiopian law categorizes real estate agents and brokers, precious metal and stones dealers, independent accountants, lawyers, notaries, and certain other legal professionals as DNFBPs and empowers the FIC to designate other businesses and professions as DNFBPs as it deems appropriate, making them subject to specific oversight and compliance measures, The FIC reported low levels of compliance from DNFBPs related to suspicious transaction reporting. This is due to the prioritization of financial institution compliance, limited awareness about reporting requirements among DNFBPs, ambiguity about the transactions that can be classified as suspicious, a lack of understanding of sector-specific risks for money laundering and terrorism financing offenses, and constraints on FIC capacity to receive and process reports.
11. Ethiopian financial institutions have shown strong political commitment to enhancing AML/ CFT compliance in the past few years. The remaining impediments are possibly in part the result of limited resources and institutional capacity. For example, the country

has just recently undertaken a process to install software that would link accounts across different branches of the same bank. Most financial institutions do not have AML/ CFT software and struggle to monitor and track transactions comprehensively. Financial institutions, particularly in rural regions, continue to submit STRs on paper, presenting logistical challenge for the FIC, which is struggling to process thousands of reports each year.

12. The FIC continues to develop its analytical capacity through staff training and the implementation of a comprehensive AML/ CFT software system. Currently, the FIC relies on an internally developed database system that lacks a comprehensive analytical capacity and is nearing its storage limits, presenting one of the biggest challenges to FIC staff in effectively analyzing STRs and CTRs.
13. Rising concern about terrorist activity has led to increased attention on terrorism financing cases from law enforcement. Many criminal justice practitioners, however, still struggle to understand the connection between money laundering and predicate offenses, and “follow the money” techniques are not routinely employed in criminal justice investigations.
14. The low prosecution rates likely stem in part from a lack of coordination between public prosecutors and police investigators. Prosecutors have indicated that they feel the information received was not sufficient to bring money laundering cases to trial, while police have expressed reticence in pursuing crimes that do not result in convictions. This disconnect presents a major challenge to Ethiopia as it seeks to tackle money laundering and terrorism financing within its borders.

4. 5 Consequences of Money Laundering

A lot of secondary sources of literatures which are covered through readings describe that money laundering has a corrosive effect not only on individuals and the society, but also the nation as a whole. Although it is difficult to quantify the negative effect in number, it is clear that money laundering has deleterious effect on socio-political and the country’s productivity in various economic sectors. Therefore, some of the consequences may be somewhat subjective.

Increased Crime and Corruption

From the very beginning, the criminals want to "invest" their dirty money in the sector where there is less likely to detect their crime. Then, if sector is not suiting the money launderers, they abandon them, causing a collapse of these sectors and immense damage to economies that could ill afford these loses (John Mc Dowell and Gary Novis, 2001). Because, the redirection of funds from one sector to the other or from one country to the other, without any economic logic, may confuse the policy makers and hence create inefficient economic policy. Furthermore, unpredictable nature of money laundering also increase the volatility of international capital flows.

The problem is not only redirection of funds from sound to low quality investment; rather, it may create loss of control of economic policy. While they invest their illicit fund, profit generation is not the primary concern of money launderers, rather it is legitimization of the proceed. Therefore, most probably, the criminals invest their money in economic activities that easily allows the recycling of the illicit funds (Vito Tanzi, 1997). Which means investment is less optimal than it would be the case in absence of money laundering activities. In addition, benefits would be diverted from legitimate business to the criminals and hence income distribution would be affected.

There is a nexus between money laundering and other crimes including corruption (YunusHusein 2007, GIABA report 2010). Money laundering is the criminal's way of trying to generate money i.e., at the end the crime pays. For each and every crime of money laundering, there must be other serious crime from which the illicit fund is generated and disguised its source through investment, transfer or remission. Money laundering may also serve to finance other crimes including terrorism. If a country is viewed as haven for money laundering, it is likely to attract domestic and foreign criminals and promote corruption. Usually, money launderers bribe bank managers and government officials in order to launder successfully and generate a potential level of fund. On the other hand, if there is high level of corruption, so is crime of money laundering. It is expected the existence of bi directional causation between money laundering and corruption. Therefore, effective and comprehensive anti money laundering legal framework mitigate not only the crime of money laundering but also other crimes including corruption.

Reduction in Government Revenue

It is very difficult for the government to collect revenue from transactions and productions take place in the underground economy. The government may fail to collect tax revenue from smuggling, and contraband which are estimated to be relatively large share of crime that generate illicit fund for money laundering. On the other hand, tax evasion erodes the government's fiscal stance that may create a problem on the effectiveness of fiscal policy. According to Yusuf Ibrahim Arowosaiyeetal; tax evasion and avoidance promotes inequality which is contrary to the fundamental principle of taxation. This means, the burden of collecting the needed revenue for development would be rest on honest tax payers.

Erosion of financial sector

Usually, money launderers use financial institutions in order to launder successfully without being traced. Globally, financial institutions are susceptible to the crime of money laundering and there is no exception in the case of Ethiopia. From the very beginning, the deposit of ill money is not reliable in a sense that they will withdraw at any time without any economic reason which in turn leads to liquidity problems and hence undermines financial sector stability. Therefore, it is very disastrous if there are financial institutions rely on the proceeds of crime. In addition, successful money laundering involves dishonest bank clerk and managers by intentionally not reporting suspicious cases, which means the institution itself becomes corrupt. This undermines the integrity of the financial sector.

Furthermore, financial institutions may face reputational risk and loss of goodwill, internationally or domestically. Internationally, the correspondent bank may terminate their agreement as their respective country's anti money laundering regime obliged to do so. In addition to correspondent banks, money transfer companies may deny transaction with institutions having such deficiencies. Domestically, customers may shift from institutions that launder successfully to other innocent banks. Therefore, the aggregate effect is reduction of profit or loss, and if things become worse, financial crisis.

Undermining legitimate private sector and privatization efforts

The final stage of money laundering is integration; where ill gotten funds enter the economy disguised as legitimate business. At this stage, criminals establish front companies which are legitimate businesses serve as shell companies and co-mingle the proceeds of illicit activity. Therefore, legitimate businesses owned by criminals are subsidized by their dirty money. Not surprisingly, they sell their products lower than market price, even lower than production cost. By doing so, front companies can get competitive advantages while legitimate companies failed to compete with these companies. Therefore, the final decision will be to let the market for the criminals by exiting from the market.

In addition, money launderers and their organizations may hijack privatization of former state owned enterprises by outbidding legitimate purchaser. Here also, the purpose is not to be profitable, rather to disguise their illicit fund. Even though the government’s privatization policy is to bring economic and social benefits, money launderers may use these enterprises by merging their illicit fund to hide their crime. Therefore, the benefits of privatization will be accommodated by transferring enterprises to criminals.

Socio political consequences

We have to understand money laundering, like other crimes, can affect aggregate society. Money laundering pays the criminals by legitimizing their illicit fund. The money obtained from one crime may serve to finance other crimes and hence facilitate and expand the extent of crime in a country. Therefore, economic power may be transferred from legitimate to illegitimate bodies. As a result, there may be chaos and disorder. If one party has illegitimate economic power, there may not be rule of law and the government also fears to take any corrective measures since the system makes the government politically incapable.

Distortion of external sector

Another method of money laundering is by involving import and export trade. The criminals usually provide wrong invoice for import and export value to undertake trade based money laundering. By doing so, they can shade their illicit fund and transfer to the outside world, and the consequence is capital flight. Capital flight on its part drains scarce resource of developing country like Ethiopia.

On the other hand, money launderers may import products with the intention to launder funds and engage on the external trade that does not have economic benefit of the mass. Since their primary concern is not profit generation, usually artificial prices would be set that would in turn harm the capacity of domestic companies to compete with those criminals owned products and hence a reduction of profitability of local firms. In relation with illicit capital inflow, it will worsen the volatility of incoming capital and affects foreign investment.

Nations' reputation risk and negative image

The other impact of money laundering rests on the nations as a whole by creating negative image for the outside world. A country having anti money laundering deficiencies are more likely faced difficulties in attracting international investors. Not only international investors but also, international money transfer will be highly scrutinized which may lead high cost and time. If the country is being haven for criminal activities, international criminal organizations and their illicit fund may be attracted for short term goals, but legitimate business may suffer to access world market. Under its public statement, FATF usually calls its members to consider the risks arising from deficiencies associated with each jurisdiction. Ethiopia has faced such difficulties until FATF cancel from the group of jurisdictions with strategic AML/CFT deficiencies

4. 6 Summary of Findings

There are different types of factors that contribute for money laundering in Ethiopia. The most threatening vulnerability factors are low level of awareness about money laundering, lack of effective monitoring of cross-border currency movements and foreign currency outflows from the center to the periphery in the form of black market and used for export in advance payment is another factor for money laundering.

Counterfeit tender Note circulation is another threat that could aggravates money laundering activity in Ethiopia. Illegal hawala transfer in has also a high contribution. Money laundering is also caused by capital flight. The level of capital flight in the country induced by capital inflow from abroad (with annual average of 4 billions USD), capital flight (with an average of 3.5 billion USD (see Tble-1 and Table-2 on page-21). Further more, while economic growth increases (for the period 2000-2009 with average growth of 8.10%) the amount of capital out flow increases dramatically. As it is assessed in the literature review part of chapter two of this research, other factors like poor government institutional quality, political risk, corruption, and price distortion aggravates the problem.

When we see the performance of banks, Reporting Suspicious Transaction (STR) is below medium level with a mean of 3.51 and customers use the structuring method (depositing below300, 000 thresholds) in different banks. Even if it has a slow increasing rate as it is observed on the literature review on table-3 on page 29. On the other hand, banks Cash Transactions Report (CTR) above cash limit is with a mean of 4.65 but Politically Exposed Persons (PEPs) Enhanced CDD by Banks is at a low level of mean 2.67. Performance of continuous Customer Due Diligence (CDD) by Banks is with a mean of 3.12. Respondents of banks experts (risk and compliance directors and/or compliance division heads are in a high level of awareness but non-bank institutions show low level of awareness.

Methods that criminals use are classified into 8 points. Among this evaluating points of request, use of other persons account name is the highest method of money laundering followed by purchase of real estate, cash holding and import-export businesses. Bank and non-bank institutions respondents have a similar result i.e. Purchase of real estate is being used as one of money laundering methods in Ethiopia which is grouped under DNFB's failed to report suspicious transactions and identifications. Generally, there is a method of front business money laundering in Ethiopia.

Other vulnerability and crime factors for money laundering are also analyzed. Accordingly, rigid bank secrecy rules could not prohibit for suspicious transaction reporting and could not be as a factor for money laundering where as inadequate KYC requirement could be considered as vulnerability factors. In terms of crimes status for contribution of money laundering, failure to criminalize money laundering, the level of corruption and tax evasion are the major criminal factor. Further more, relatively illegal arms trade is a higher crime threat than drug trafficking in Ethiopian case of money laundering.

Ethiopia‘s performance on AML comparing to developed countries is low and medium to its neighbors. Ethiopia has made substantial progress in the last three years, although lack of standardized record keeping system and failure to control transactions outside banks- like DNFBs is still not addressed.

Challenges to Fight Money Laundering in Ethiopia are multidimensional. Major challenges are;

1. Lack of political will, weak bureaucratic system, the generally slow pace of reform, poor performance of institutions on anti-money laundering activity corruption and tax evasion, Lack of awareness in Ethiopia continue to present challenges.
2. Given its strategic location within the Horn of Africa, Ethiopia is vulnerable to transnational smuggling activities and trafficking in narcotics, persons, arms, and etc Additionally, Ethiopia is home to high tariffs that may further encourage customs fraud and trade-based money laundering. These vulnerabilities have contributed to a huge loss of revenue for the growing nation via illicit financial outflows.
3. Rising concern about terrorist activity has led to increased attention on terrorism financing cases from law enforcement.
4. Designated Non-Financial Businesses (DNFB's) such as Real Estate and professions remain an area of money laundering and terrorism financing vulnerability.

Money laundering has different socio-economic consequences such as economic distortions; the criminals want to "invest" their dirty money in the sector where there is less likely to detect their crime, may confuse the policy makers and hence create inefficient economic policy, reduction in government revenue, erosion of financial sector, undermining legitimate private sector and privatization efforts. Following socio political consequences; there may be chaos and disorder which emanates from economic consequences. The other impact of money laundering rests on the nations as a whole by creating negative image for the outside world.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5. 1 Summary

Money laundering becomes a global phenomenon both in developing and developed world. Especially after 9/11 terrorist attack the world is being enforced to know how much illegal money flow is dangerous. Money laundering has been defined in different ways and it is common to divide the money laundering process in to three stages as placement, layering and integration.

The concept of money laundering in Ethiopia became a phenomenon after the promulgation of the new proclamation No. 657/2009 and Regulation No 171/2009 brought the establishment of Ethiopian Financial Intelligence Center. Internal and International cooperation is established. Ethiopia becomes a member of Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG in 2014. Currently, Ethiopia is free from FATF Monitoring processes and Public Statement. Internal cooperation is also achieved though it is not satisfactory among different institutions. There are six standard setters on anti money laundering, the major three players are - the United Nations, Financial Action Task Force (FATF) and the Egmont Group.

According to the National risk assessment on the vulnerability of the country to money laundering and financing of terrorism, several deficiencies were addressed by FIC. However, some researchers argue that anti money laundering law of the country in general and those provisions to fight money laundering in the banking sector in particular are not sufficient to fight the problem. Trade Based Money Laundering such as mis-pricing, illegal hawala and black market are considered as complex part of trade based money laundering and its relationship with tax evasion is very high. The collaboration and coordination of stakeholder agencies also have been low in order to prevent and suppress it. Others also did not agree that banks have been taking their responsibilities in combatting money laundering or terrorist financing.

The general objective of the study is to investigate the country's stand and performance on anti money laundering and to highlight potential consequences of money laundering in Ethiopia. The study may be used as a base line for further study and creates public awareness on the issue and consequences of money laundering. This study used a descriptive survey design. The data collection techniques are Primary and Secondary data collection methods. The data collected by using different methods was analyzed through regression method.

The study focused on different factors induce money laundering such as on nine methods of vulnerability factors emanated from government's performance evaluation, status of nine types of crimes to contribute money laundering, the position of banks to comply with Anti-Money Laundering requirements and other factors like capital flight.

A checklist of 9 factors that may contribute to make Ethiopia vulnerable to money laundering was provided. Accordingly, lack of effective monitoring of cross border transactions, lack of awareness and failure to criminalize money laundering are high vulnerability factors. Use of other persons' name is one of the successful methods of money laundering. Real estate transactions also cloak illicit sources of funds or serve in the legitimization process.

When we see the performance of banks, Reporting Suspicious Transaction (STR) is below medium level. On the other hand, banks Cash Transactions Report (CTR) above cash limit is with higher performance but Politically Exposed Persons (PEPs) at a low level. Respondents of banks experts are in a high level of awareness but non-bank institutions show low level of awareness.

Methods that criminals use are classified into eight points. Among eight evaluating points of request use of other persons account name is the highest method of money laundering followed by purchase of real estate, cash holding and import-export businesses.

The country's strategic location, weak bureaucratic system and lack of political will remain a high challenge. Failure to criminalize money laundering is high, Tax evasion; contraband has a significant crime factor for money laundering. Relatively illegal arms trade is a higher crime threat than drug trafficking in Ethiopian case of money laundering. Other crime factors such as theft/fraud, counterfeiting, killing of person, and receiving money for illegal purpose indicates as a low percentage. Generally, Ethiopia's performance on AML comparing to developed countries is low and medium to its neighbors.

5.2 Conclusion

Ethiopia had the 12th-fastest growing economy in the world in 2012 and has experienced annual economic growth rates averaging 10.9 percent over the past 10 years, compared to a regional average of 5.3 percent, although the 2015, UNDP – Human Development Index ranks Ethiopia as 174th out of 188 countries.

Money laundering is a major threat for the country even though economic growth is achieved. It has different challenges to the country. Given its strategic location within the Horn of Africa, Ethiopia is vulnerable to transnational smuggling activities and trafficking, illegal hawala operation, weak integration among stakeholders on anti money laundering and other situations are challenging to Ethiopia. The level of capital flight in the country as it is assessed in the literature review part of this research is very high. Corruption, Erosion of financial sector, undermining legitimate private sector and privatization efforts, socio political consequences, distortion of external sector, nations' reputation risk and negative image are the major consequences of money laundering.

The country has made several progresses to alleviate the problem.Ethiopia‘s performance on AML comparing to developed countries is low and medium to its neighbors. The progress can be classified as legal, operational, and cooperation and coordination.

On the legal perspective, Ethiopia has made substantial progress in the last three years on strengthening its legal framework. In recognition of these efforts, as of October 2014, Ethiopia is no longer subject to the FATF monitoring process. The FIC is also committed to achieving membership in the Egmont Group of Financial Intelligence Units.

On operational perspective, the finding reveals that, Banks are well performing to make awareness among the staff and management, keeping records for reasonable time, and Cash Transaction Report (CTR). But there is a deficit of undertaking Politically Exposed Persons (PEPs) enhanced Customer Due Diligence (CDD), Suspicious Transaction Reports (STR) and continuous CDD. Neither National Bank of Ethiopia nor Financial Intelligence Centertakes any corrective measures against failure of bank requirements of Anti Money Laundering. Further more; Ethiopia’s vulnerability to money laundering is relatively due to lack of inadequate Know Your Customer requirements, lack of awareness on non-bank institutions and lack of effective monitoring of cross border transactions. Use of other persons’ name, purchase of real estate, holding cash and engaging in import and export business are the top four methods of money laundering that criminal's use in Ethiopia to disguise their illicit money. On the other hand, bank deposit and purchase of luxurious goods are relatively low in Ethiopia.

Though, imposing of reporting requirements on banks, insurances, foreign exchange bureaus, customs and revenue authorities, is encouraging, microfinance institutions, designated non-financial businesses and professions (DNFBPs) such as lawyers, notaries, accountants, real estate agents, and precious stones and metal dealers are not still reporting to the Financial Intelligence Center.

Cooperation and coordination in building of capacity among stakeholders on AML/ CFT issues, and improving coordination and information sharing between relevant institutions still remains more work.Political will remains still as a problem to combat money laundering across the Ethiopian government and limited commitment at the working level in some institutions, coupled with a weak bureaucratic system and the generally slow pace of reform in Ethiopia, continues to presents challenges.

Finally, though several efforts and advancements have been made by the government, money laundering is a huge problem to the country and I forward the following recommendations in order to fill the gap and address the remaining vulnerabilities that induce money laundering.

5. 3 Recommendations

Money laundering increased crime and corruption, reduction in government revenue, undermining legitimate private sector and privatization efforts, causes socio-political danger and a hazard on nations' bad reputation risk and negative image.

Even though Ethiopia's performance of AML is in a good progress, there are still some remaining gaps. As per the finding, the researcher recommends the following points on government institutions NBE, Commercial Banks, FIC and etc. in particular and the government in general.

- In order to reduce vulnerability, banks should strengthen their KYC, and DNFBs and professions should start to comply with KYC requirement. With this respect, FIC must finalize procedures and directives on how DNFBs and professions report suspicious transactions. FIC should also work more to create public awareness since lack of awareness is high vulnerability factor.

- Continue forging informal and formal working relationships among reporting entities, the FIC, NBE, judiciary, and law enforcement bodies.
- Proclamation No 760/2012 on the registration of vital events and issuing of national identification card National ID is not issued yet which pose significant impact on KYC and CDD performance of banks. Therefore, it is very important to issue National ID.
- Conducting enhanced CDD is a remedy of most of the methods of money laundering, but some banks failed to comply with this requirement. Therefore, NBE and FIC should take corrective actions and may be important to penalize banks with major deficiencies.
- There are some conflict of interest between compliance department and bank management, i.e., sometimes, bank management wants to mobilize deposit and attract customers regardless of AML requirements while compliance department wants to assess the risk of money laundering. Therefore, it is important either to make compliance department independent or responsible directly for the president of respective banks.
- FIC in collaboration with other competent institutions should identify PEPs and distribute accordingly. At least major PEPs (top level officials) should be identified and the rest could be incorporated with the passage of time.
- Work with the FIC to effectively implement a software system and to enhance analytical capacities through continued training and capacity building. Encourage engagement with DNFBPs and conduct sector-specific risk assessments in order to best allocate resources.
- The selection of comprehensive data base system from advanced countries will help improve analytical capacities and the quality of financial intelligence the FIC is able to provide police, investigators, and prosecutors.
- Control on Licensed and unlicensed institutions in operating of foreign currency exchange and Illegal Hawala Money Transfer, black market foreign Currency Exchange and Forgery Currency Notes circulation is the peculiar features that aggravates money laundering are expected from the National Bank of Ethiopia..

Generally, the Ethiopian government: Should scrutinize vigilantly the vulnerability from border transactions, consistent information sharing and coordination among agencies; expand awareness raising and training efforts to rural regions. Political commitment to control annual inflows and out flow of external borrowing is needed since it constitute the most consistent determinant of capital flight and money laundering.

Good governance and institutional quality alleviates the problem that emanates from poor governance and weak institutions. Fighting of corruption seeks political commitment on generally identified areas. Systems must be implemented to tackle Trade Based Money Laundering through under and over invoicing for import and export goods.

Government should support the development of effective regulatory structures for emerging technologies, such as mobile banking, to help promote financial inclusion goals. Implementation of functional regulation and enforcement of rules: on bank or a non-banking financial institution transferring money, asset transfer etc.

Finally, the government should seek active membership in the Egmont Group in the near term and must work with the international community to hamper the ability of corrupt and tax-evading Ethiopian laundering their money in the global financial system. This could be accomplished by establishing a global system of automatic exchange of tax information. In this way, Ethiopian authorities could much more easily track the bank accounts of tax evaders have established around the world.

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Appendix-I Questionnaire & Interview

Introduction

I am a student of St,Mary's University in MBA program and currently I am studding on Money laundering in Ethiopia and its consequences. Money laundering is the process of converting illegitimately obtained proceeds in to legitimately obtained proceeds by disguising the true nature and source, location and ownership. As the other crimes do, money laundering has social, economic and political consequences in a country. By understanding the deleterious effects of money laundering, the government of Ethiopia has made several progresses in recent periods. The purpose of this paper is to assess the extent of money laundering in Ethiopia and provide appropriate recommendations.

This is therefore to request you that, by understanding the importance of the issue, please 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. Finally, we would like to thank in advance for your kind cooperation.

Note

- Please mark **"X"** in the space provided
- It is more important, if information are based on recent status
- Part Three is only for bank respondents
- Please call +251-911-83-83-82 for further clarification and additional information.

Part One: personal Information

1. Sex Male ☐ Female ☐

2 Educational Status

1. TVET, Diploma ☐ 3. Second degree and above☐
2. First degree ☐ 4. Special training ☐

3. Work experience

1. Less than five years ☐
2. between 5 and 10 years ☐
3. More than 10 years ☐

4. Job position ______________________

5. Your Awareness and knowledge on the issue of money laundering

1. High☐ 2. Medium☐ 3. Low ☐ 4. No information☐

- ***If your answer for the above question is either 1 or 2, please proceed to the next questions***

Part Two: Vulnerability factors and methods of money laundering

2.1. There are various methods that criminals use to launder their illicit fund. With this respect, which of the following methods are prevalent in Ethiopia? (You can choose more than one method)

1. Use of other persons' name (example; family, friends, close relatives, etc)
2.Bank deposit
3. Use of fictious name
4. Engaging import and export
5. Holding cash on hand
6. Shell business
7. Purchase of luxurious goods
8. Purchase of real estate
9. Other methods (please specify)

____

____

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2.2 Please measure the extent of vulnerability factors of money laundering in the case of Ethiopia

No.		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1	Rigid bank secrecy rules that obstruct law enforcement investigations or that prohibit or inhibit large value and/or suspicious transaction reporting					
2	Lack of or inadequate “know your customer” requirements					
3	Lack of effective monitoring of cross-border currency movements					
4	No reporting requirements for large cash transactions					
5	Failure to keep customers information for reasonable period of time					
6	Lack of or weak bank regulatory controls					
7	No or lack of external cooperation					
8	Failure to criminalize money laundering for all serious crimes					
9	Low awareness on the issue of money laundering					

10. Other vulnerability factors (Please specify)

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Part Three: status of banks to comply with Anti-Money Laundering requirements

3.1 Ethiopian anti money laundering law obliged banks to report suspicious transactions to Financial Intelligence Center. Please specify suspicious transactions that you encountered in your bank?

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3.2 In order to fight money laundering, banks have a major role in different perspectives. How do you measure the performance of your bank on the following requirements?

	Requirements	Very Good	Good	Medium	Low	Very Low
		(5)	(4)	(3)	(2)	(1)
1	Reporting suspicious transactions					
2	Cash Transaction Report (CTR) beyond the cash limit					
3	keeping records of customers for reasonable period					
4	know your customer (KYC)					
5	Enhanced customer due diligence for PEPs					
6	Undertaking continuous Customer Due Diligence (CDD).					
7	Assessing new products and services against money laundering					
8	providing ongoing training for the management and employees					
9	Please specify if any					

Part Four; Status of crimes on money laundering

Crimes				**Extent of prevalence of crimes**		
	Very High	**High**	**Medium**	**Low**	**Very low**	**No Information**
1 Corruption						
2 Tax Evasion and Avoidance						
3 Contraband						
4.Human Smuggling and Trafficking						
5 Drug Trafficking						
6 Illegal Arms Trafficking						
7 Theft/ Fraud*						
8 Counterfeiting						
9 Homicide						
10 Usury						
11Receiving Money for Illegal Purpose						

* Fraud: Business Fraud, Public sector fraud, Insurance Fraud, personal Fraud, etc.

Please list the harmful effects of money laundering.

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General comments on Money laundering

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Interview Questions

1. Could you state the frequency of onsite visit per year on Commercial Banks and other institutions?
2. How the Frequency of Suspicious Transaction Report(STR) and Cash Transaction Report(CTR) could be explained?
3. What is the reason for the amendment of regulation 2009 and to replace with regulation 2013?. What are the legal framework progresses?.
4. Could you explain the status of being membership of Egmont group?.
5. What was the result of an assessment report made by governmental bodies?.
6. The progress of issuing new National Identification (ID) card is 3 years and 5 months. What do you say about the delay?.
7. How do you evaluate Ethiopia's Cooperation and coordination with national and international organizations ?
8. Ethiopia's Progress for FATAF acknowledgement. What do you say on this point ?.
9. Even though, FIC established in , 2010 how do you see its progresses for AML Please forward your comment on the issue?.
10. What challenges that FIC encountered in the Anti-Money Laundering activities?.
11. How Hawala , Black market foreign exchange , and border trade contributes for money laundering ?
12. How do you evaluate the reform, coordination and integration among governmental institutions such as NBE, Federal Police, INSA, and others for AML activity?
13. What do you say about Trade finance or Trade Based Money Laundering?
14. Designated Non-Financial Businesses (DNFB's) and Micro Finance Institutions still are not reporting CTR like banks .What is the reason for not reporting?
15. How do you evaluate the level of other government institutions and the general public awareness on the bad consequences of Money Laundering?
16. How strong is the FIC to fight money laundering?
17. What are the factors , methods , and consequences of money laundering in Ethiopia?
18. What are the crimes mostly regarded as a threat for money laundering?
19. How is Ethiopia evaluated on AML activities compared to its neighboring countries?
20. What impact has the location of Ethiopia to be the horn of Africa?

Appendix-II Background Data

		Frequency	%
Sex	male	61	88.4%
	female	8	11.6%
	Total	69	100.0%
Education	TVET, diploma	7	10.1%
	BA	46	66.7%
	MA and above	16	23.2%
	special training	0	0.0%
	Total	69	100.0%
Institution	bank	52	75.4%
	non bank	17	24.6%
	Total	69	100.0%
Experience	<5yrs	18	26.1%
	5-10 yrs	23	33.3%
	>10 yrs	28	40.6%
	Total	69	100.0%

Appendix-III Mean (Descriptive statistics)

Descriptive Statistics		
`	N	Mean
Reporting suspicious transactions	51	3.51
Reporting transactions above cash limit	51	4.65
Keeping records of customer for long period	51	4.35
KYC	51	3.53
PEPs enhanced CDD	49	2.67
Conducting continuous CDD	51	3.12
Assessing new bank products and services in accordance with AML	50	3.14
Providing training for staffs and management members in relation with AML	51	4.2

Appendix-IV External Public Debt

(In Million of USD)

Particulars	2012/13	2013/14	2014/15	Percentage Change	
	A	B	C	B/A	C/B
Annual Debt	**2,679.2**	**3,150.0**	**5,423.1**	**17.6**	**72.2**
Debt Stock	11,222.7	14,008.1	18,194.1	24.8	29.9
Multilateral	5,028.5	6,154.5	6,228.6	22.4	1.2
Bilateral	3,192.3	4,505.3	2,743.2	41.1	-39.1
Commercial	3,001.9	3,348.3	9,222.4	11.5	175.4
Debt Service	**648.6**	**652.7**	**878.2**	**0.6**	**34.6**
Principal repayments	527.9	509.2	629.0	-3.5	23.5
Interest payments	120.7	143.5	249.2	18.9	73.6
Debt stock to GDP ratio (In percent)	23.7	25.5	29.1	7.5	14.1
Debt stock to export of goods and non-factor services	**1.9**	**2.2**	**3.0**	15.1	39.0
Receipts from goods and non-factor services	**5,968.7**	**6,474.2**	**6,047.7**	**8.5**	**-6.6**
Debt service ratio (In percent)[1/]	**6.6**	**7.5**	**10.8**	**15.1**	**42.6**
Arrears[2/]					
Principal					
Interest					
Relief	**9.0**	**3.5**	**-**		
Principal	7.1	2.9			
Interest	2.0	0.6			

Source: MoFED

1/ Ratio of debt service to receipts from export of goods and non-factor services

Appendix-V Balance of Payments

(In Millions of USD)

S/N		2012/`13	2013/14	2014/15	Percentage Change	
		A	B	C	B/A	C/B
1	**Exports, f.o.b.**	**3,115.8**	**3,300.1**	**3,019.3**	**5.9**	**-8.5**
	Coffee	746.6	714.4	780.5	-4.3	9.2
	Other	2,369.2	2,585.7	2,238.8	9.1	-13.4
2	**Imports**	**11,460.6**	**13,712.3**	**16,458.6**	**19.6**	**20.0**
	Fuel	2,174.9	2573.1	2,040.9	18.3	-20.7
	Cereals	560.8	442.8	601.6	-21.0	35.9
	Aircraft	18.1	35.4	190.6	95.7	438.8
	Imports excl. fuel, cereals, aircraft	8,706.9	10,661.0	13,625.5	22.4	27.8
3	**Trade Balance (1-2)**	**-8,344.8**	**-10,412.2**	**-13,439.3**	**24.8**	**29.1**
4	**Services ,net**	**459.1**	**559.5**	**-341.4**	**21.9**	**-161.0**
	Non-factor services, net	571.7	712.2	-78.9	24.6	-111.1
	Exports of non-factor services	2,852.9	3,174.2	3,028.4	11.3	-4.6
	Imports of non-factor services	2,281.2	2,461.9	3,107.3	7.9	26.2
	Income, net	-112.645	-152.8	-262.5	35.6	71.9
	O/w Gross official int.	120.7	143.5	249.2	18.9	73.6
	Dividend	-1.7	-17.9	-23.7	954.0	32.1
5	**Private transfers, net**	**3,575.5**	**4,039.4**	**4,881.6**	**13.0**	**20.8**
	o/w: Private Individuals	2,489.3	2,968.4	3,796.7	19.2	27.9
6	**Current account balance excluding**	-4,310.2	-5,813.3	-8,899.1	34.9	53.1
7	**Official transfers, net**	**1,529.9**	**1,461.0**	**886.5**	**-4.5**	**-39.3**
8	**Current account balance including**	**-2,780.3**	**-4,352.3**	**-8,012.6**	**56.5**	**84.1**
9	**Capital account**	**3,291.2**	**4,134.6**	**7,030.6**	**25.6**	**70.0**
	Off. Long-term Cap., net	1,269.6	2,308.9	2,566.0	81.9	11.1
	Disbursements	1,438.5	2,442.8	2,653.7	69.8	8.6
	Amortization	168.9	133.9	87.7	-20.7	-34.5
	Other pub. long-term cap.	881.7	331.9	2,228.0	-62.4	571.3
	Foreign Direct Investment(net)	1,231.6	1,467.0	2,202.2	19.1	50.1
	Sht-trm Capital	-91.6	26.8	34.3	-129.2	28.4
10	**Errors and omissions**	**-517.5**	**120.8**	**460.6**		
11	**Overall balance (8+9+10)**	**-6.5**	**-96.9**	**-521.4**		
12	**Financing**	**6.5**	**96.9**	**521.4**		
13	Reserves [Increase(-), Decrease (+)]	15.5	100.3	521.4		
14	Central Bank (NFA)	-57.2	-42.5	-92.9		
	Asset	-127.2	-218.2	-663.1		
	Liabilities	70.0	175.7	570.2		
15	Commercial banks (NFA)	72.7	142.9	614.3		
16	Debt Relief	-9.0	-3.5			
	Principal	7.1	2.9			
	Interest	2.0	0.6			

<u>Source</u>: NBE Staff Compilation

*Appendix-VI. Values of Major Export Items**

(In Millions of USD)

Particulars	*2012/13*		*2013/14*		2014/15		Percentage change	
	A	%share	B	%share	C	%share	C/A	C/B
Coffee	746.6	24.0	714.4	21.6	780.5	25.8	4.5	9.2
Oilseeds	443.5	14.2	651.9	19.8	510.1	16.9	15.0	-21.8
Leather and Leather products	121.1	3.9	129.8	3.9	131.6	4.4	8.7	1.4
Pulses	233.3	7.5	250.7	7.6	219.9	7.3	-5.8	-12.3
Meat & Meat Products	74.3	2.4	74.6	2.3	92.8	3.1	25.0	24.4
Fruits & Vegetables	43.9	1.4	45.9	1.4	47.6	1.6	8.5	3.6
Live Animals	166.40	5.3	186.68	5.7	148.51	4.9	-10.7	-20.4
Chat	271.27	8.7	297.35	9.0	272.42	9.0	0.4	-8.4
Gold	578.8	18.6	456.2	13.8	318.7	10.6	-44.9	-30.2
Flower	186.7	6.0	199.7	6.1	203.1	6.7	8.8	1.7
Electricity	34.6	1.1	45.3	1.4	42.8	1.4	23.9	-5.5
Others	215.4	6.9	247.4	7.5	251.4	8.3	16.7	1.6
Total Export	**3115.8**	**100.0**	**3300.1**	**100.0**	**3019.3**	**100.0**	**-3.1**	**-8.5**
Total Export excluding electricity	**3081.2**		**3254.8**		**2976.5**		**-3.4**	**-8.5**

**Data for electricity export of 2014/15 is an estimate*

Source: Ethiopian Revenue and Customs Authority

Table 17. Sub-Saharan African SILICs: Capital Flight Estimates- The Residual Approach, 1980-91 1/
(In millions of US dollars)

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Burundi	KF1	58.90	18.00	46.00	82.00	55.00	12.00	48.00	88.00	16.00	19.50	-69.60	120.20
	KF2	68.41	-15.20	16.19	75.45	46.79	38.74	112.60	80.66	32.65	88.74	-68.38	92.94
C.A.R.	KF1	46.90	42.30	6.00	-13.00	-26.00	6.70	28.80	59.10	-23.10	-44.30	-79.40	87.80
	KF2	63.77	68.59	-33.90	-16.58	-14.11	-26.36	44.53	99.48	5.64	-25.11	-83.73	64.75
Côte d'Ivoire	KF1	2450.10	-1614.00	-1208.00	842.00	255.00	436.00	553.00	672.00	673.00	-554.00	725.00	167.00
	KF2	2149.80	-1999.90	-1391.60	736.50	173.70	448.30	663.90	800.30	774.50	-423.40	616.00	366.40
Ethiopia	KF1	90.10	-33.00	31.00	-21.00	63.00	370.00	-83.00	355.00	299.00	34.00	-120.50	638.20
	KF2	7.10	248.60	-154.90	-111.90	-67.60	642.70	118.50	140.20	199.50	41.90	-148.40	608.20
Ghana	KF1	642.00	-267.00	-182.00	341.00	359.00	-102.00	476.00	308.00	-141.00	54.00	65.00	165.00
	KF2	408.30	-339.80	-189.70	63.90	470.80	144.90	494.50	45.10	-7.80	156.00	-169.50	652.70
Guinea Bissau	KF1	77.30	15.80	0.60	8.60	26.50	-17.80	-5.80	77.50	20.50	3.40	39.70	23.26
	KF2	77.30	13.80	-15.40	-4.40	22.50	-0.80	-0.31	87.32	38.16	0.27	42.08	9.76
Kenya	KF1	1052.60	-547.00	229.00	112.00	-275.00	-23.00	282.00	514.00	450.00	-942.00	625.00	154.10
	KF2	1953.00	-10.20	532.80	805.70	558.80	710.40	1217.90	1165.10	920.50	-290.70	1018.00	430.50
Liberia	KF1	314.10	241.00	199.00	85.00	112.00	298.00	207.00	220.00	-184.00			
	KF2	239.60	200.12	116.90	64.91	77.10	298.01	201.14	217.85	-188.13			
Madagascar	KF1	12.50	98.00	54.00	-18.00	-117.00	123.00	352.00	364.00	252.00	-421.00	-41.00	232.00
	KF2	24.60	112.40	2.50	-14.80	-76.30	88.50	473.10	476.70	365.50	-371.40	-339.20	237.80
Mali	KF1	161.20	13.00	-54.00	39.00	189.00	-109.00	178.00	111.00	111.00	-138.00	23.40	119.50
	KF2	155.70	7.90	-83.70	20.50	208.40	-113.10	132.80	120.50	209.20	-14.20	136.10	449.40
Mauritania	KF1	76.10	-42.00	-40.00	-59.00	-73.00	189.00	99.00	217.00	-271.00	-60.50	208.10	65.60
	KF2	96.30	-1.10	-85.70	-112.20	-106.40	145.70	61.00	225.60	-306.20	-3.70	175.80	85.10

Table 22. Sub-Saharan SILICs: Adjusted capital Flight Estimates, 1980-91 1/
(In millions of US dollars)

		1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Burundi	KF1*	43.47	-15.70	17.18	91.52	56.09	50.65	100.83	73.52	22.22	-39.63	-95.16	131.63
	KF2*	52.98	-48.90	-12.63	84.97	47.88	77.39	165.43	66.12	38.87	29.61	-93.94	104.37
C.A.R.	KF1*	27.29	33.83	51.31	-31.77	-55.62	-1.54	144.30	134.84	70.24	58.05	42.73	218.67
	KF2*	44.16	60.12	11.41	-35.35	-43.73	-34.60	160.03	175.22	98.98	77.24	38.40	195.62
Côte d'Ivoire	KF1*	2993.44	-1595.80	-885.09	1146.84	654.03	990.65	1143.29	1234.32	907.36	156.09	1606.55	1087.03
	KF2*	2693.14	-1981.70	-1068.69	1041.34	572.73	1002.95	1254.19	1362.62	1008.86	286.69	1497.55	1286.43
Ethiopia	KF1*	262.06	-85.57	-54.82	-89.71	-126.74	105.44	-256.40	241.49	-97.97	-257.82	-375.76	578.14
	KF2*	432.96	208.43	175.18	192.29	71.26	-3.56	87.60	147.49	-135.97	-30.82	5.74	200.94
Ghana	KF1*	1030.45	-61.21	-77.53	484.79	224.47	-235.31	435.23	347.69	-352.36	243.19	134.87	209.56
	KF2*	796.75	-134.01	-85.23	207.69	336.27	11.59	453.73	84.79	-219.16	345.19	-99.63	696.66
Guinea Bissau	KF1*	55.70	8.24	-8.05	9.25	27.72	-18.07	-6.46	76.32	22.41	0.53	38.92	22.65
	KF2*	55.70	6.24	-24.05	-3.75	23.72	-1.07	-0.97	86.14	40.07	-2.60	41.30	9.15
Kenya	KF1*	1211.69	-568.93	25.49	76.55	-475.82	-232.86	-108.82	79.90	214.73	-1320.69	352.83	31.75
	KF2*	2112.09	-32.13	329.29	770.25	357.98	500.54	827.08	731.00	685.23	-669.39	745.83	308.15
Liberia	KF1*	-1458.72	-1905.73	-2506.86	-1939.52	-1630.17	-1874.20	-1954.13	-2164.58	-1067.83			
	KF2*	-1533.22	-1946.61	-2588.96	-1959.61	-1665.07	-1874.19	-1959.99	-2166.73	-1071.96			
Madagascar	KF1*	-46.12	129.16	-44.76	-40.77	-151.30	107.72	266.85	251.93	109.27	-485.35	30.66	257.15
	KF2*	-34.02	143.56	-96.26	-37.57	-110.60	73.22	387.95	364.63	222.77	-435.75	-267.54	262.95
Mali	KF1*	-337.17	-84.40	105.05	7.64	126.15	-258.93	198.29	48.68	46.49	-203.40	-24.89	73.93
	KF2*	-342.67	-89.50	75.35	-10.86	145.55	-263.03	144.09	58.18	144.69	-79.60	87.81	403.83
Mauritania	KF1*	-529.06	-277.92	-236.24	-158.64	-167.88	95.25	-6.02	125.31	-274.99	-237.31	108.78	82.95
	KF2*	-508.86	-237.02	-281.94	-211.84	-201.28	51.95	-44.02	133.91	-310.19	-180.51	76.48	102.45
Mozambique	KF1*	-1405.00	-445.85	-379.00	-420.18	-344.32	2371.53	195.72	270.78	148.64	-442.27	-302.58	-182.14
	KF2*	-1437.00	-512.85	-520.00	-435.18	-271.82	2342.11	229.44	309.65	173.39	-454.11	-263.58	-200.54
Niger	KF1*	689.20	296.04	-66.09	62.82	108.91	84.33	328.73	162.34	254.27	-288.43	200.41	-16.86
	KF2*	697.40	280.44	-197.79	75.42	182.41	139.03	385.53	239.64	263.87	-326.23	198.51	-19.86