



**ST. MARY'S UNIVERSITY**

**MASTERS OF BUSINESS ADMINISTRATION (MBA)**

**Effectiveness of Anti-money Laundering Preventive Measures in Ethiopia:  
Case Study on Commercial Banks and Financial Intelligence Center.**

**A Thesis Submitted to the School of Business and Economics for the Partial  
Fulfillment of the Requirement of MBA Degree in Business Administration**

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## **DECLARATION**

I, Belay Sileshi, declare that the study entitled ‘Effectiveness of anti-money laundering preventive measures in Ethiopia: case study on Commercial banks and financial intelligence center’. All information in this document has been obtained and presented in accordance with academic rules and ethical conduct. The study has not been submitted to any Degree or Diploma in any college or university.

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## **APPROVAL**

This is to certify that the thesis paper, entitled Effectiveness of anti-money laundering preventive measures in Ethiopia: case study on Commercial banks and financial intelligence center, which is submitted for the partial fulfillment of the degree of Master of Art in Business Administration complies with the regulations and meets the standards of the institution.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AML	Anti-Money Laundering
CDD	Customer Due Diligence
DNFBP	Designated non-financial businesses and professions
EFT	Electronic Fund Transfer
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FATF	Financial Action Task Force
FIC	Financial Intelligence Center
FIU	Financial Intelligence Center
IMF	International Monetary Fund
KYC	Know Your Customer
MER	Mutual Evaluation Report
ML	Money Laundering
MOP	Ministry of Peace
OFAG	Office of the Attorney General
PEP	Politically Exposed Persons
UNTOC	UN Office on Drugs and Crime
VASPs	Virtual Asset Service Providers
WB	World Bank

## **ABSTRACT**

*This study aims to assess the effectiveness of anti-money laundering countermeasures by commercial banks and financial intelligence center. Purposive sampling technique was chosen to get the required sample size. About ten banks on the basis of year of establishment and assumed to have best experience in handling money laundering were targeted to study. Data gathered were analyzed based on 57 responses and additional interviewee. Descriptive statistics research approach was employed. All outputs were reported using frequency. The result indicates that even though banks have senior compliance officers who have relevant competence and authority to oversee the bank's AML/CFT compliance program, banks did not communicate the AML policies, procedures and manuals. Financial institutions in Ethiopia had internal audit function to assess anti- money laundering and sanctions and practices, but they do not have other independent third party to audit and assess money laundering. The absence of national ID card for customers and absence of technology to improve AML/CFT activities and the law concerning KYC requirements and other preventive measures suffer difficulty and such gaps create a suitable ground for money launderers to exploit the banking system. The study recommends that Banks ought to have appropriate procedures and policies, and financial intelligence center with banks should investigate politicians, statesmen, ministers.*

**Key Words:** Anti-money laundering, Banks, Effectiveness, Financial intelligence center

## **CHAPTER ONE**

### **1. INTRODUCTION**

#### **1.1 Background of the Study**

As of Dobrowolski and Sulkowski (2019) the money laundering process has a long history, however has develop and adapted to modern society, globalization, and digital transformation, causing main damage to citizens, companies, and states, appropriate a catalyst for illegal actions (terrorism, fraud, and corruption) that lead to decreasing integrity and transparency, and creating a extensive need of self-assurance in markets. The money laundering operation entail the unlawful act of hiding money from illicit activities and turning it into legitimate money (Le-Khac et al., 2016; Nazri et. al, 2019), thus changing the clandestine nature of money. Hetemi et. al (2018) recognized that ML is the transforming process through which dirty, illegal money appears to be white and clean. According to the Financial Action Task Force (FATF, 2020), the money laundering fact entail money laundering by adapting illegal profits in order to hide the true origin of fraud, corruption, prostitution, illegal sale of weapons, and others, and the IMF and UNODC (2005) state that this procedure is carried out by an individual who dissimulates or cover the illegal origin of income in order to make the feeling that it is derived from legal sources.

According to policy by the Ministry of Peace (MoP, 2016), Ethiopia is committed in combating ML/TF and has adopted a whole of government approach (compromising different ministries and sectors). And it states that from an assessment done in 2016 by National risk assessment the overall risk of ML/TF was medium and medium high. The high-level crime identified included: corruption, tax fraud, illegal Hawala, good smuggling, human trafficking etc.

Financial Action Task Force (FATF, 2017) now Ethiopia is lifted from the FATF list of countries that have been recognized as having strategic AML shortages as it has showed progress in improving its AML/CFT regime and addressed related technical. In order to set up a tough and successful AML-CFT system with comprehensive rules covering anti-money-laundering and

counter-terrorist financing requirements for both banking and non-banking sectors, it is necessary to set up an adequately operational legal and institutional or administrative framework not only with the regulatory power that provides competent authorities with the necessary duties, powers and sanctions but also with the laws that make money laundering and terrorist financing offenses, plus enforcement power that provides for freezing, seizing and confiscation of the proceeds of crime and terrorist funding. The efficient AML-CFT system also comprise laws and system that inflict the required obligations on financial institutions and chosen non-financial commerce and professions, and other enforceable income that provide a country the capability to provide the widest range of international cooperation (IMF and WB, 2005).

According to Tuemay and James (2012) Ethiopia is undertake a period of very rapid economic growth, which is expected to last for a number of years. Its monetary scheme, extended closed to external investment and control and controlled by the state, is gradually liberalizing, as are other elements of the economy. This development is raising possibility for corruption and money laundering linked to trafficking, commercial fraud, tax evasion, and other criminal conduct. As a result, Ethiopia is at here along with those countries of the majority concern to the global community on AML/CFT subject, as reflect by the ongoing concentration of the FATF ICRG, which continue to state concern about Ethiopia's AML/CFT preparations. This appears increasingly to presage potential actions by some FATF members recommending that financial institutions based in those countries cease business with Ethiopia. Any such act could rapidly and severely interrupt Ethiopian trade association and economic growth. Providentially, there are symbols that the senior Ethiopian leadership recognizes these hazards.

## **1.2 Statement of the Problem**

As of Financial Action Task Force (FATF, 2020) money laundering occur in any country especially those with complex financial system, countries in which there is weak anti-money laundering programs and low risk of detection are likely to be a target. As the objective of money laundering is to obtain the illegal money reverse to the individual who granted them, launderers favor to move the money through stable financial system. And complex international financial transaction may be abused in the process of ML and TF. McDowell and Novis (2001), in Economic Perspectives, state that money laundering presents the world community with a

complex and dynamic challenge. Money laundering reduces tax revenue. Additionally, as of Elizabeth and Murphy (2008) money laundering undermines the stability of financial systems, corrupts government officials, institutions and private sectors and it also undermines the rule of law, economy and national security.

Biniam (2011) reasoned that because of Ethiopia's economy is highly cash-based; there are some vulnerable institutions whose services are exploited by launderers. Banks are amongst these institutions, and they are frequently in the frontline in controlling against illicit money movements. The author argued that money laundering impairs the development of financial institutions because money laundering erodes financial institutions themselves and then would lead for corruption by criminal elements. The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG, 2021) follow up report confirmed that Ethiopia has been in an enhanced follow up process following the adoption of its mutual evaluation report in 2015. However, as of the report the authorities could not show the list of entities/sectors from where compliance managers came and consequently it was not likely to determine whether that covered all or most of the reporting entities. Furthermore, the report confirmed that limitations are observed on the adoption and implementation of AML requirements as per the Financial Intelligence Center and Financial Action Task Force (FATF) requirements among commercial banks in Ethiopia. This initiated to further examine the effectiveness of banks in combating money laundering.

The Mutual Evaluation Report (MER, 2021) also noted that FIC had not started providing feedback to DNFBPs because they had not yet started reporting STRs and the authorities have not addressed the deficiency in relation to provision of feedback on suspicious transaction reports. From this report the researcher initiated to do more investigation and fill the gap.

Messay and Daniel (2021) examined the cash intensive nature of Ethiopia's economy has enabled a significant amount of cash to circulate outside of the formal financial system. The study revealed that to address the danger of offense posed by the cash economy the Ethiopian government has full events such as limit cash withdrawals from financial institutions, limiting the quantity of cash individuals can hold, and limiting the quantity of money withdrawing inside a week and demonetizing the banknotes. The researchers finished that the measures enables

banks to collect cash flow outside bank but, the study was unsure the efficiency of the measures in reducing criminality and controlling money laundering and terrorism. For this and above reason these researches initiate to examine the effectiveness of countermeasures. Therefore, this study intends to investigate the effectiveness of taken measures in combating money laundering and terrorism.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The general objective of the study is to assess the effectiveness of anti-money laundering countermeasures by commercial banks and financial intelligence center.

#### **1.3.2 Specific Objective**

1. To assess the existing practicing of anti-money laundering preventives in Commercial Banks.
2. To assess the effective countermeasures taken by financial institutions to combat money laundering.
3. To examine the challenges of anti-money laundering measures in Ethiopia.

### **1.4 Research Question**

1. What is the existing practicing of anti-money laundering preventives in Commercial Banks?
2. What the effective countermeasures taken by financial institutions to combat money laundering?
3. What are the challenges of anti-money laundering measures in Ethiopia?

### **1.5 Scope of the Study**

The study has time, methodological, and geographical delimitations. Methodologically, the scope of the study was limited to the study only on effectiveness of selected ten commercial Banks and

Financial intelligence center in combating money laundering. Among eighteen banks only selected ten banks were considered. This was to reduce time and resource because unable to address all banks staffs. When conducting the study the sample frame was limited taken only from compliance office employees of selected banks and financial intelligence center unit employees.

Theoretically, as the study is primarily targeted at looking the money laundering & its countermeasures in the case of Ethiopian commercial banks, further the issue of money laundering in the financial sectors & the countermeasures in relation to these sectors on the issue was deeply assessed. The effectiveness of counter measures taken in commercial banks of Ethiopia against money laundering are the main issue has been taken the main concern of the study.

Geographically, the study is delimited to the head office of each bank which is found in Addis Ababa. This is because all the selected staffs were found in head office.

Conceptually this research delimited to assess on practice of Anti-money Laundering preventive measures and its effectiveness and the challenges of anti-money laundering measures. The study was also limited its time scope to collect data from September 02/2021 and to complete paper up to December 03/2021.

### **1.6 Significance of the Study**

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

Therefore a study of such nature had high benefits. Primarily, it would ring for the government as well as for the banking sectors by indicating advanced international issues on money laundering, corruption by PEPs, & the Lacunae that we have in the new law in order to consolidate the gaps & ensure stability, transparency, soundness & efficiency of the banking system & the current problems there of in relation to money laundering.

### **1.7 Limitation of the Study**

Only Financial intelligence center staffs and ten banks compliance office staffs have been considered for this study. This research could not include the opinion of other officers in the banks. The other difficulty the researcher faced was the question of freedom of information from respondents. Some respondents or authorities were not willing to give information in relation to politically exposed persons and money laundering activities by officials. In addition, as there is norm of prohibiting giving data for the third party even for academic purpose, the researcher had faced some difficulties in getting AML programs and publications at the required level, unwillingness and too much precaution with a fear of availing confidential information can be mentioned as obstacles.

The other limitation is in relation to literatures. The writings in relation to this issue are general in nature. Money laundering is given a section or sub section in a book so the writer was dependent on web sources and official sites of NBE, banks, FATF, and IMF as well as other international organizations.

### **1.8 Definition of Key Terms**

**Money Laundering:** It is a crime, of converting the property for the purpose of disguising the illicit origin of the property, source, location, disposition movement or ownership or rights with respect to the property (FIC, 2014).

**The Financial Action Task Force (FATF):** is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. FATF is mandated to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money



laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system (FATF, 2012).

**Financial Intelligence center:** is the center of gathering of information about the financial affairs of entities of interest, to understand their nature and capabilities, and predict their intentions (ESAAMLG, 2021).

**Anti-money Laundering:** is the execution of transactions to eventually convert illegally obtained money into legal money (ESAAMLG, 2021).

### **1.9 Organization of the Study**

This research paper consists of mainly five chapters. The first chapter contains the introduction and background of the study, statement of the problem, research question, objective of the study, significance of the study, scope of the study, organization of the study and operational definition of key terms. The second chapter contains theoretical and empirical literature review of the study. The third chapter deals with research methodologies. The fourth chapter with the data result, presentation and interpretation of the research study. The fifth chapter has conclusion and recommendation based on the finding of the survey.

## **CHAPTER TWO**

### **2. LITERATURE REVIEW**

#### **INTRODUCTION**

In this chapter different concepts focusing on theoretical and empirical review about money laundering and its countermeasures reviewed in light of the objectives of the study. The theoretical review contains theoretical literature on money laundering, causes of money laundering, stages of money laundering, methods of money laundering, theories in money laundering, links between money laundering and terrorism, anti-money laundering measures and challenges of AML/CTF Implementation and Practices. The empirical literature review also discusses the previous related journals, papers and thesis made.

#### **2.1 Theoretical Literature Review**

##### **2.1.1 Money laundering**

Money laundering can be defined in a different ways. Most countries subscribe to the definition adopted by the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (1988) (Vienna Convention) and the United Nations Convention Against Transnational Organized Crime (2000). The conversion or transfer of property, knowing that such property is derived from any (drug trafficking) offense or offenses or from an act of contribution in such offense or offenses, for the reason of concealing or cover the illicit origin of the property or of assisting any person who is involved in the commission of such an offense or offenses to evade the legal consequences of his actions.

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

As of Schott (2006) the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing that such property is

derived from an offense or offenses or from an act of participation in such an offense or offenses, and; The acquisition, possession or use of property, knowing at the time of receiving that such property was resulting from an offense or offenses.

### **2.1.2 Causes of Money laundering**

According to Qureshi (2017) several factors give increase to money laundering, and they may be present within a country or state, or might operate transnational. Some of the most famous factors that lead to money laundering are:

a) **Tax invasion** - Tax evasion guides to the hiding of financial assets owned by a person or company to evade taxes, people hide their assets and the sources of their earnings. The rationale behind avoiding paying taxes is accumulating wealth (Qureshi, 2017).

b) **Weak financial regulations** - Another cause of money laundering is the weakness and inadequacy of financial regulations and relevant authorities within a country. For instance, if the tax department is not strong enough to question the politicians, elites, and general public about their earnings and “monetary and nonmonetary” assets, then it is not difficult for people to hide taxes and perform money laundering by buying property in relatively more stable but offshore economies (Qureshi, 2017).

c) **Bribery**- Bribery is also linked to weak financial regulations as financial regulatory authorities or airport officials might be bribed by money launderers to allow them to transfer funds abroad without paying the applicable taxes and by not tracking down the sources or destinations of the money. This paves the way for secured money laundering facilitated by the officials of airport authorities. As a consequence, the money illegally moves out of the country (Qureshi, 2017).

d) **Corruption**- Corruption is unethical conduct aimed at gaining personal benefits by using either authority or bribery. Politicians, statesmen, ministers, etc. hide the monetary and nonmonetary assets that they earn illegitimately, i.e., through means of corruption. For instance, they might take bribes and would prefer to transfer the bribe money into foreign banks or other investments which lead to money laundering (Qureshi, 2017).

e) **Failure of banks in detecting laundered money** - Another reason for the untracked facilitation of money laundering is the failure of banks to detect and report the money in their

reserves that is being laundered. Huge sums of money are transferred by money launderers to foreign banks, and some accept without carrying out any effective inspection as to their source (Qureshi, 2017).

### **2.1.3 Stages of Money Laundering**

Money laundering is an extensive procedure and money is laundered whenever a person or business deals in any way with another person's benefit from crime and can occur in a countless number of varied ways. As of Demetriades and Vassileva (2020) traditionally money laundering has been explained as a process which takes place in three distinct stages these are:

#### **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, 2009). This stage of money laundering is the most risky, because of the proximity of the true identity of income, with the possibility of being detected by the authorities (Jayantilal et al., 2017) because it involves the introduction of illicit profits in the financial system (The World Bank and Schoot and Allan, 2003; Jaara and Kadomi, 2017).

According to Alison (2004) money launderers in the first stage are exposed to law enforcement detection since there exists a direct connection between the profits and the crime and it also involves the physical disposal of the cash. However, the placement of funds in to the financial system has become increasingly difficult to discover due to the large number of ways to accomplish it (Modelyn, 2000). In order to avoid deposits of large sum of money that may trigger suspicion and cause detection, they just use a process called smurfing. In this process a number of individuals make small deposits in a number of different depository institutions so as to avoid detection. 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 (ibid).

## **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, 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 (Paul, 2006). 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 (Ibid).

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, 2006). 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, 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 and Barbra, 2003).

Various methods of money laundering can be done nationally (“adding cash to the cash registry of a cash-intensive business”) (Ferwerda et al., 2020) or internationally (depositing dirty money by criminals in the bank), and targeting the financial system in order to lose the illegal mark with the help of offshore companies.

## **2.1.4 Methods of Money Laundering**

### **Structuring of Money**

This method entails the division of large amounts of cash, which need to be laundered, into smaller amounts. Each divided amount is then transferred, through money orders, online transactions, cash deposits, etc., to foreign banks. The nontaxable sum, which can be legally traveled with, can also be taken to the foreign country by traveling legitimately. The scheme of dividing a sum of money into smaller portions and transferring the portions is also termed “smurfing. “It generally includes the first stage of money laundering the placement of funds in foreign banks—either through online transfers, wire transfers, money ordering, or traveling as a group but pretending to be individuals, with each person having the maximum but different amount of cash to legally travel with (Business Crime Solutions, 2017).

### **Smuggling**

This method involves taking bulk cash to a foreign country by deceiving the airport or border authorities of the actual amount of money being displaced. This amount is then deposited into a bank of that foreign country, where the money laundering laws might be weaker or not strictly enforced. This is considered to be the most common method of money laundering (Business Crime Solutions, 2017).

### **Laundering through trade**

Money laundering through trade happens when invoices are either undervalued or overvalued, depending upon the cash inflow/outflow or costs, respectively. Traders often accomplish this by providing fake invoices and accounts (Business Crime Solutions, 2017).

### **Non-Governmental organizations (N.G.Os)**

Founding a non-governmental organization and registering it in another country and providing funds to it can lead to money laundering if the N.G.O. is not making use of the funds for a noble cause for the local public. Some businessmen create trust organizations and give their money to them as a charity payment so that the charitable amount is not taxed; this therefore avoids taxation. If such an N.G.O. or trust organization is working in another country and the funds are provided to it in the foreign land illegitimately, then it certainly constitutes money laundering (Business Crime Solutions, 2017).

### **Bank control**

Money launderers become major shareholders of a bank in a foreign or local region where there is weak scrutiny related to money laundering. Hence, by making an investment in the bank and gaining some shares, the money launderers try to gain influence over the bank and perform money laundering through it without scrutiny as it becomes a major client of that bank. This kind of money laundering is very rarely identified because the financial regulatory authorities consider the movement of currencies from the bank as usual cash proceeds (Business Crime Solutions, 2017).

### **Money laundering through real estate**

Some criminals buy property with cash earned through illegal means and then sell the property to reacquire the cash, so as to justify it as legitimate money. As the illegitimate money is converted into legitimate earnings, it is considered laundered money. It is also possible that the price of that property may be underrepresented to reduce the taxable amount. This hides the exact amount of money spent on buying the property, and it is mainly done to evade tax (Business Crime Solutions, 2017).

### **Foreign exchange**

Uncertified and unregulated foreign exchange companies also have a presence in different regions of several countries. These companies also collect remittances and then deliver the relevant amount of remittance to the families of the senders without notifying government

authorities. These foreign exchange companies have multiple currencies with them and they usually transfer funds abroad upon the requests of the locals. Meanwhile, the government never notices that the foreign exchange companies are transferring funds abroad or are collecting cash that is sent to them from people from foreign lands as remittances. Hence, the government is depressed of the collection of remittances, as well as the taxes that it can get from the cash that is sent abroad. As a result, this technique of currency exchange or remittances, which is also related to Hawala, is unlawful in most countries (Business Crime Solutions, 2017).

### **2.1.5 Theories in Money Laundering**

#### **Economic Theory**

As of Asian development policy review (2017) the economic classical theory proposed by Adam Smith identifies two fundamental factors that determine the behavior of individuals. On one hand, every person acts rationally and aims to maximize his personal utility, a principle which is considered for most decision making performed by the individual. Correspondingly, this principle also governs unlawful undertakings aimed at acquiring personal wealth. While on the other hand, the personal utility of an economic venture is mainly determined by anticipated costs and revenues, which are ruled by demand and supply laws.

In this classical realm of Smith, the state of a country does not lie in the hands of the individual or a firm. The individual neither plans to promote public interest nor is he even aware of how much he is promoting, as the intention is for his corresponding security. In other cases, individuals or firms are led by an unseen hand toward a goal that was not the original intention, and thus, the government should protect people from violence and injustice. Smith proposed the observable and unpretentious system of natural liberty. In such system, an individual can be left alone to follow his interests according to his ways, provided that he does not violate the laws of justice, and to utilize his industry and capital to engage in competition with any other individual. ML is a practice damaging to citizens because of the unlawful procurement of capital (Asian development policy review, 2017).



## **Crying Wolf Theory**

Excessive reporting or —crying wolf can water down the value of the data of reports. The initial formal analysis of ML practice is triggered by excessive reporting. Banks monitor transactions and report suspicious activity to government agencies. These agencies use the data to identify investigation targets, and banks are fined should they fail to report ML. However, to avoid fines, banks resort to reporting transactions that are less suspicious, which dilutes the information.

Excessive reporting fails to recognize information that is truly important, as informational value of the reports is watered down. Intuition can best be understood through an analogy with the tale of —The Boy who Cried Wolf. In the tale, the cries of the boy became useless because he called the attention of the towns people too often despite failing to ascertain the wolf’s presence. Similarly, excessive reporting, which is referred to as —crying wolf, fails to identify truly relevant data. Generally, the crying wolf phenomenon indicates that information does not merely refer to data, but can identify truly important data. Where the agency problem has been revealed by this theory model’s between the banks and the formal institutions (Asian development policy review, 2017).

The formal model builds on five main economic obstacles. The first obstacle is communication between the banks and governments. However, the problem lies in accuracy and not in the verification of information. The second obstacle is that the bank incentives to report are coarse. Banks are fined only for concealing potential ML information, but not failing to report transactions that are prosecuted later as ML. In the third obstacle, banks are always unsure of the true nature of transactions, which makes every transaction a potential case for ML. In the fourth obstacle, banks assume the dual task of having to oversee all transactions in order to report suspicious cases. The fifth obstacle pertains to bank information, i.e., signal on the transaction which is not verifiable ex-post because local information during judgment cannot be reproduced later. The model shows that harmful excessive reporting, known as —crying wolf (Takats, 2007).

## **Transparency-Stability Theory**

Regulation has moved beyond the dichotomous language of public authority versus private interests (Hancher and Moran, 1989). Evidently, differences between national regulatory requirements resulted in distorted consequences. Hence, regulations across the globe apply multi-level governance through specialized discourse that includes specialist epistemic communities, broad financial policy, and advocacy networks. Regulatory action can result in practices by building shared understandings of problems and solutions among participants.

Mitch et al. (2007) suggests banking crises are less likely to occur in countries implementing greater regulated disclosures and transparencies. Transparency-stability theory suggests that greater disclosure and greater transparency facilitates efficient resource allocation by reducing informational asymmetry. Assuming accounting information as a public good (Watts and Zimmerman, 1986) and central banks are funded by conscripted taxpayers and investors, and then central banks could reasonably produce extensive disclosures to satisfy the informational needs of the public. This notion flies in the face of transparency-fragility theory, which states that greater disclosure may indicate widespread problems in the banking system. Consequently, this situation could create negative externalities, such as runs on money and concerns regarding the financial system's vulnerability (Murithi, 2013).

## **Terrorism Financing**

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

Any person commits an offence within the meaning of this Convention if that person by any means, directly or indirectly, unlawfully and willfully, provides or collects funds with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when

the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.” (UN, 1999) The IMF defines terrorism financing as the process through which individuals or organizations collect funds with the aim of applying those funds to the execution of terrorist deeds (IMF, 2003). This denotation is similar to the World Bank’s (2009) definition which states that terrorism financing is any form of financial support towards terrorism, or those who conspire, participate, and encourage the execution of terrorist deeds.

### **Links between Money Laundering and Terrorism Financing**

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

Money laundering and the financing of terrorism may be seen as distinct activities but laundering of criminal funds aims at giving a legal appearance to dirty money, whereas the laundering of terrorist funds aims at obscuring assets of a legal origin (such as public funding or so-called charities). This distinction is useless, however, since the objective of public policies is not to address the issue of the processing of illegal funds, but the funds themselves and the organizations behind them. In this regard, criminal assets and terrorist assets represent the same threats to financial systems and public institutions, and it is clear that the strategies designed to fight criminals when they channel their funds through financial systems may apply with the same success in combating terrorist financing cases (Thony, 2000)

#### **2.1.6 Effective AML/CFT Preventive Measures**

Countering money laundering effectively requires knowledge of banking, finance, accounting and other related economic activities in addition to that of laws and regulations, investigation and analysis. There may be insurmountable obstacles not only to obtaining the information from

financial institutions but also to rapid exchanges of information with foreign counterparts without the assistance of a financial intelligence unit that provides the possibility of rapid exchange of information between financial institutions and law enforcement/prosecutorial authorities, as well as among jurisdictions.

In the simplest form, a financial intelligence unit (FIU) – a central agency to receive, analyze, and disseminate financial information to combat money laundering and terrorist financing – serves as a crucial element in an AML-CFT program to provide for the exchange of information between financial institutions and law enforcement agencies.

According to the World Bank's (2009) definition, A central, national agency responsible for receiving (and, as permitted requesting), analyzing and disseminating to the competent authorities, disclosures of financial information:

- (i) Concerning suspected proceeds of crime, or
- (ii) Required by national legislation or regulation, in order to counter money laundering

The following diagram<sup>46</sup> of the basic FIU concept shows that efficient FIUs provide assistance in exchanging information between financial institutions and law enforcement / prosecutorial authorities and between jurisdictions.

In order to prevent financial institutions from being used by criminals, internal policies which vary depending on the type and size of a particular financial institution and the scope and nature of its operation need to be in place. Internal policies should include ongoing training that keeps employees well-informed of the latest developments on AML and CFT. One important point, among others, is that adequate screening procedures should be done when hiring employees (World Bank, 2009).

### **Know your customer/Customer due diligence (KYC/CDD)**

The importance of Know Your Customer/Customer Due Diligence (KYC/CDD) has been recognized by supervisors of financial institutions in the world community and they have been working hard to have adequate policies and procedures in place, including “Know Your Customer” / “Customer Due Diligence”, which will ensure compliance with the money laundering legislation in force and promote high ethical standards in the financial sector and prevent the financial institutions being used intentionally or unintentionally by criminals.

According to Basel Committee on Banking Supervision (2006), the following are twelve essential criteria and an additional criterion for Core Principle 18:

Essential criteria

1. Laws or regulations clarify the duties, responsibilities and powers of the banking supervisor and other competent authorities, if any, related to the supervision of banks' internal controls and enforcement of the relevant laws and regulations regarding criminal activities.
2. The supervisor must be satisfied that banks have in place adequate policies and processes that promote high ethical and professional standards and prevent the bank from being used, intentionally or unintentionally, for criminal activities. This includes the prevention and detection of criminal activity, and reporting of such suspected activities to the appropriate authorities.
3. In addition to reporting to the financial intelligence unit or other designated authorities, banks report to the banking supervisor suspicious activities and incidents of fraud when they are material to the safety, soundness or reputation of the bank.
4. The supervisor is satisfied that banks establish "know-your customer" (KYC) policies and processes which are well documented and communicated to all relevant staff. Such policies and processes must also be integrated into the bank's overall risk management.
5. The supervisor is satisfied that banks have enhanced due diligence policies and processes regarding correspondent banking. Such policies and processes encompass gathering sufficient information about their respondent banks to understand fully the nature of their business and customer base, and how they are supervised; and not establishing or continuing correspondent relationships with foreign banks that do not have adequate controls against criminal activities or that are not effectively supervised by the relevant authorities, or with those banks that are considered to shell banks.
6. The supervisor periodically confirms that banks have sufficient controls and systems in place for preventing, identifying and reporting potential abuses of financial services, including money laundering.
7. The supervisor has adequate enforcement powers (regulatory and /or criminal prosecution) to take action against a bank that does not comply with its obligations related to criminal activities.
8. The supervisor must be satisfied that banks have:

- Requirements for internal audit and/or external experts to independently evaluate the relevant risk management policies, processes and controls. The supervisor must have access to their reports;
- Established policies and processes to designate compliance officers at the management level, and appointed a relevant dedicated officer to whom potential abuses of the bank's financial services (including suspicious transactions) shall be reported;
- Adequate screening policies and processes to ensure high ethical and professional standards when hiring staff; and
- Ongoing training programs for their staff on KYC and methods to detect criminal and suspicious activities.

9. The supervisor determines that banks have clear policies and processes for staff to report any problems related to the abuse of the banks' financial services to either local management or the relevant dedicated officer or to both. The supervisor also confirms that banks have adequate management information systems to provide managers and the dedicated officers with timely information on such activities.

10. Laws and regulations ensure that a member of a bank's staff who reports suspicious activity in good faith either internally or directly to the relevant authority cannot be held liable.

11. The supervisor is able to inform the financial intelligence unit and, if applicable, other designated authority of any suspicious transactions. In addition, it is able, directly or indirectly, to share with relevant judicial authorities information related to suspected or actual criminal activities.

12. The supervisor is able, directly or indirectly, to cooperate with the relevant domestic and foreign financial sector supervisory authorities or share with them information related to suspected or actual criminal activities where this information is for supervisory purposes.

Customer Due Diligence – adequate due diligence on new or existing customers – is a key part of AML-CFT policy without which banks can become subject to reputational, operational, legal and concentration risks in banking systems. It is also stated in Provision 30 of the Basel Committee “Customer Due Diligence for Banks” that a numbered account – the name of the beneficial owner known to the financial institution only that is substituted by an account number – should be subject to exactly the same KYC/CDD procedures as all other customer accounts. It reads:

Banks should never agree to open an account or conduct ongoing business with a customer who insists anonymity or who gives a fictitious name. Nor should confidential numbered account function as anonymous accounts but they should be subject to exactly the same KYC procedures as all other customer accounts, even if the test is carried out by the selected staff. Whereas a numbered account can offer additional protection for the identity of the account holder, the identity must be known to a sufficient number of staff to operate proper due diligence. Such accounts should in no circumstances be used to hide the customer identity from a bank's compliance function or from the supervisors (Basel Committee on Banking Supervision (2006)).

### **Record-keeping requirements**

FATF recommendation on the CDD and record-keeping requirements for financial institutions, non-financial institutions and designated non-financial businesses and professions are set out in FATF Recommendations 5 to 12. Institutions are required to keep customer identity and transaction records for at least 5 years following the termination of an account.

According to Basel Committee on Banking Supervision (2006) when a new customer is non-resident, special attention should be exercised. Provision 23 of the Basel Committee CDD for banks reads: Banks should 'document and enforce policies of identification for customers and those acting on their behalf'. The best documents for verifying are those most difficult to obtain illicitly and to counterfeit. Special attention should be exercised in the case of non-resident customers and in no case should a bank short-circuit identity procedures just because the new customer is unable to present himself for interview. The bank should always ask itself why the customer has chosen to open an account in a foreign jurisdiction.

Having ensured that the financial secrecy laws do not inhibit implementation of the FATF Recommendations, financial institutions must collect the information of the customers as much as they can. Neither an account should be opened without verifying the new customer's identity satisfactorily (Basel Committee on Banking Supervision, 2006) nor should a customer be permitted to open or maintain an account using an anonymous or fictitious name (Ibid).

In order to verify the legality of the entity the financial institution should collect the following information from the potential customer (WB, 2004).

1. Name and legal form of customer's organizations;

2. Address;
3. Names of the directors;
4. Principal owners or beneficiaries;
5. Provisions regulating the power to bind the organization;
6. Agent(s) acting on behalf of the organization; and
7. Account number (if applicable).

As of Basel Committee on Banking Supervision (2006) The Committee developed a series of recommendations that provide a basic framework for supervisors around the world to be used as guidelines in the development of KYC/CDD practices in their supervised financial institutions. A financial institution should develop and enforce a clear customer acceptance policy and tiered customer identification program that involves more extensive due diligence for high risk accounts and includes proactive account monitoring for suspicious activities. In accordance with international standards set by the Basel Committee on

Banking Supervision and by the FATF, countries must ensure that their financial institutions have appropriate customer identification and due diligence procedures in place.

It seems that countries should extremely work hard in order to comply with

As of IMF and WB (2005) Recommendation five due states “For customer due diligence (CDD) (Recommendation 5), no countries were rated compliant, 33 percent were considered largely compliant, 67 percent were partially compliant or non-compliant.”

### **High risk accounts and transactions**

Enhanced due diligence measures should be taken into account on the following high risk accounts and transactions (WB, 2004).

### **Politically exposed persons**

Politically exposed persons (PEPs) abuse their public powers for their own illicit enrichment through the receipt of bribes, embezzlement, etc. in countries where corruption is widespread.

PEPs are individuals who are or have been entrusted with prominent public functions in a foreign country, for example Heads of State or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political



party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves (FATF, 2013). Banks should gather sufficient information from a new customer and check publicly available information in order to establish whether or not a customer is PEP. Banks should investigate the source of funds before accepting a politically exposed person. The decision to open an account for PEP should be taken at a senior management level (Ibid).

The report on the AML-CFT assessments by the IMF and the WB (2005) states:

All assessed high- and middle-income countries have adopted a range of preventive measures applicable to the prudentially-regulated financial sectors (the banking, securities, and insurance sectors), but implementation is uneven. No countries were fully compliant, and a large percentage of the countries were non-compliant with the

Recommendation requiring enhanced due diligence for politically exposed persons. Many of the assessed low-income countries had only begun the process of creating regulatory frameworks. Where such frameworks were present, they only covered the banking sector.

### **Countries on the NCCT list and shell banks**

The PEPs within the NCCTs might create vulnerabilities of the banking system to money laundering since they abuse the power to use the banking system of their own country. Besides the PEPs, criminals might use the banks in the countries on the NCCT list that have weak AML-CFT regimes. It is, therefore, important to carry out adequate due diligence on the transactions from the countries on the NCCT list (FATF, 2013). The main objective of the NCCT initiative is to reduce the vulnerabilities of the financial system to money laundering. Countries on the NCCT list are the countries that have failed to make adequate progress in addressing the serious deficiencies previously identified by the FATF. In other words, implementation of measures for the prevention, detection and punishment of ML and FT is not sufficient in accordance with international standards. It is required to identify clients or beneficial owners from these countries before business relationships are established and to enhance surveillance and report financial transactions and other relevant actions involving the countries on the NCCT list.

### **Non-face-to-face customers and correspondent banking**

As of Basel Committee Customer (2004) some of the customers do not present themselves at the financial institutions for their interview when conducting transactions. Financial institutions should, therefore, be aware of non-face-to-face customers and should take necessary steps to deal with them.

As of Basel Committee Customer (2004) financial institutions should, in relation to cross-border correspondent banking and other similar relationships, in addition to performing normal due diligence measures:

- a) Gather sufficient information about a respondent institution to understand fully the nature of the respondent's business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a money laundering or terrorist financing investigation or regulatory action.
- b) Assess the respondent institution's anti-money laundering and terrorist financing control.
- c) Obtain approval from senior management before establishing new correspondent relationships.
- d) Document the respective responsibilities of each institution.
- e) With respect to 'payable-through accounts', be satisfied that the respondent bank has verified the identity of and performed ongoing due diligence on the customers having direct access to accounts of the correspondent and that it is able to provide relevant customer identification data upon request to the correspondent bank.

Non-face-to-face customers usually use postal services and telecommunications networks to obtain financial services for their convenience. However, electronic banking currently incorporates a wide array of products and services delivered over telecommunications networks. Although developing technologies provide the customers with luxurious convenience the nature of electronic banking creates difficulties in customer identification and verification (Basel Committee on Banking Supervision, 2004).

## **Intermediaries**

As of Basel Committee (2004) when the client account is opened by a professional intermediary that client must be identified. Although the funds held by a professional intermediary or lawyer on behalf of entities are not co-mingled, if there are sub-accounts that can be attributable to each beneficial owner, all beneficial owners of the sub-accounts by the intermediary or lawyer must be identified. When the funds are co-mingled the financial institution should look through to the beneficial owners unless the intermediary has engaged in a sound due diligence process and has the systems and controls to allocate the assets in the pooled accounts to the relevant beneficiaries (Ibid).

## **Securities firms and insurance companies**

As of Financial Action Transaction Force (FATF, 2004) the securities firms and the insurance industry can follow and adhere to the relevant requirements stated in the FATF Methodology and CDD requirements and guidelines established and provided by the IOSCO and the IAIS respectively. An Insurance entity must obtain the following of Location completed, Client's financial assessment, Client's need analysis, Payment method details and Benefit description.

When the transaction seems to be unusual and/or when the source of funds cannot be inquired, the financial institutions including insurance sector and securities sector should submit a suspicious transaction report to the authorities for further investigation. Insurance companies and securities firms should report suspicious activities to the respective financial intelligence unit or other national centralized authority. The institution is not supposed to investigate the transaction or to obtain the evidence of connection between the funds and any criminal activity, including fiscal crimes (Ibid).

## **Designated Non-Financial Businesses and Professions (DNFBPs)**

The Glossary of the FATF (2004) Recommendations defines designated non-financial businesses and professions. Not only the scope and organization of DNFBPs greatly differ from those of the supervised financial institutions but also the scope and responsibilities of lawyers, notaries, auditors and accountants, and the extent of their regulation; vary considerably from country to

country. In some countries, entry into the professions is strict and subject to demanding qualifications whereas in others, it is more flexible to come into a profession subject to light regulation. At the same time, they are not familiar with AML-CFT obligations (Ibid).

As of FATF (2004) real estate agents and dealers in precious metals and stones that offer a range of financial services are very lightly regulated as they are informally organized. Regardless of their countries, all DNFBPs must follow CDD procedures that apply to casinos, real estate agents, dealers in precious metals and stones, professionals, and trust and company service providers.

### **Suspicious Transactions**

As of Financial Action Task Force (FATF, 2004) a suspicious transaction is any complex, unusual large transaction and all unusual patterns of transactions, without apparent economic or visible lawful purpose. Financial institutions should be required to pay special attention to all complex, unusual large transactions, or unusual patterns of transactions, that have no apparent or visible economic or lawful purpose. These transactions may represent proceeds of crime and it could involve money laundering and/or terrorist financing (Ibid).

### **Suspicious Transaction Reporting/report (STR)**

According to Financial Action Task Force (FATF, 2004) special attention should be paid to unusual patterns of transactions and complex and unusual large transactions. These transactions should be examined thoroughly and the findings should be recorded systematically. Financial institutions should record the following information for each and every transaction and keep the records for a minimum of five years following the termination of the account.

- Name of the customer and/or beneficiary;
- Address;
- Date and nature of the transaction;
- Type and amount of currency involved in the transaction;
- Type and identifying number of account; and
- Other relevant information typically recorded by the financial institution.

If the findings are not satisfactory, the financial institution should consider declining the business and/or making a suspicious transaction report. If a financial institution suspects or has reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it should be required, directly by law or regulation, to report promptly its suspicions to the Financial Intelligence Unit (FATF, 2004).

As of Financial Action Task Force (FATF, 2004) each jurisdiction has its own reporting threshold amount of money for each transaction established by a statute depending on its own circumstances. Financial institutions should be required to undertake customer due diligence (CDD) measures for any cash transaction that exceeds the threshold amount.

### **2.1.7 Challenges of AML/CTF Implementation and Practices**

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

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

African Development Bank (2007) revealed that implementing comprehensive AML/CFT policies in the context of developing countries offers some unique challenges. All countries face certain challenges in fully implementing the FATF 40+9 recommendations, but the capacity and resource constraints of low income countries make it particularly difficult for them to implement all the necessary measures simultaneously.

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

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

On the other hand, Tuemay (2013) state that the AML/CFT initiatives in Ethiopia are faced with key limitations and challenges to their effective and efficient implementation, including a lack of a national AML/CFT policy or strategy; comprehensive legislation, regulatory frameworks, and detailed regulations; established formal and institutionalized national interagency cooperation.

### **2.1.8 Anti-Money Laundering in Ethiopia**

According to Ethiopia AML report (2017) Ethiopia is highly committed to combating money laundering and terrorist financing (ML/TF) activities and associated predicate offenses. These crimes threaten the safety of the society, the integrity of financial system, and the stability of the economy. Ethiopia therefore adopts a whole of government approach to prevent ,detect, investigate, supervise, suppress, convict, Freeze, seize, confiscate, cooperate and take all necessary action against ML/TF and associated Predicate offenses (MOP).

The National Bank of Ethiopia (NBE) has introduced and applied Customer Due Diligence (CDD) standards across all banks and supervises the financial sectors compliance activities as required by the AML law and related legislation. The charities and societies proclamation number 621 and regulation number 168, both enacted in 2009, require charities and societies to register with central authority, expose their funding sources, submit profile of their officers, and audit their transaction as part of its ongoing AML/CFT efforts (Tuemay, 2013).

According to risk assessment conducted in 2016 by the national risk assessment it was identified that the overall risk of ML and TF of Ethiopia was medium and medium high respectively. From the assessment high level threat predicate crimes were known, and these include corruption, tax fraud, human trafficking and migrant smuggling, good smuggling (contraband), illegal Hawala and fraud.

## **2.2 Empirical Literature Review**

Elizabeth and Murphy (2008) made an assessment on Understanding and Preventing Money Laundering. The author identified that Efforts to Stop Money Laundering are Foreign efforts to combat money laundering are found in The World Bank, International Accords, and the Financial Action Task Force (FATF). The World Bank promotes measures that halt, or slow, the flow of money into emerging markets. The author concludes that the professional skills and expertise of internal auditors suit them well for the war against money laundering. Forensic accounting skills, as well as audit expertise, are needed to help fight this crime. The development of internal policies, procedures, and controls to prevent money laundering falls within the accounting profession's responsibilities. Money laundering, due to today's high-tech, global environment, is a worldwide industry. As many interested parties realize the need for global efforts to combat this very expensive crime, internal auditors have a unique opportunity, and obligation, to take a pro-active role in these efforts.

Biniam (2011) conducted on the research on Money Laundering and Countermeasures a Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector. A personal visit and observation was also employed to familiarize my work with the working condition of the issue. The researcher finding indicates that Ethiopia has made a remarkable progress in fighting money laundering activities; gaps however are still remaining and further efforts should be made to avoid the lacunae in the anti money laundering laws of the country as recommended. The study concluded that Due to the clandestine nature of money laundering and the absence of consolidated data, it is impossible to extrapolate the amount of money laundered in Ethiopia; however, there are indications that money laundering is taking place in the country. Corruption, smuggling and contraband as well as tax evasion are the major threats to the country that badly

need money laundering activities and banks have been wittingly or unwittingly participants in the process. The law concerning KYC requirements, CTR, STR and other preventive measures suffer lacunae and such gaps create a fertile ground for money launderers to exploit the banking system. The issue of payment systems in the banking sector and the emergency of contactless technologies necessitate emphasis on money laundering matters but no law in the country about payment system. Regulation, supervision and international cooperation are also other worthy points that have been discussed so far.

Kalkidan (2020) made an assessment on the Anti-money Laundering Law in Ethiopia: Issues of Enforcement with Specific Reference to banks. The report argued that Banks are among the institutions which take the leading role in the combat against the crime of money laundering. They, however, remain highly vulnerable to an ever growing means and mechanisms of perpetration of the crime. This reality demands a continuous adoption of necessary measures. In what appears to be responding to this demand, Ethiopia has enacted several laws that impose obligation on banks to take preventive measures that can prevent the manipulation of the financial system towards the commission of laundering. This article examines whether banks (both private and public) in Ethiopia are implementing measures intended to prevent money laundering. Secondly, it examines the relationship and collaboration between banks and the regulatory organs (such as the Financial Intelligence Center and the National Bank of Ethiopia) in identifying and safeguarding against the schemes that allow the use of banks as intermediaries in the commission of money laundering.

Cotoc et al. (2021) conducted case studies on Efficiency of Money Laundering Countermeasures: Case Studies from European Union Member States. The aim of this study is to present the trends and effectiveness of money laundering countermeasures from the perspective of a number of suspicious transactions reported to the Financial Intelligence Units (FIUs), a number of analysis results submitted to law enforcement authorities, and the typologies of cases in European Union Member States. In order to determine the impact of the joint effort in the fight against money laundering, we used descriptive statistics to process the data and case studies from annual reports of the European FIUs for 2018 and 2019. The results of their study highlight the increase in the number of suspicious transactions notices, as well as in their quality level. There is an increasing tendency towards information exchange between European Union countries regarding the suspicion of money laundering, but there is no stable trend for referring



cases to law enforcement and other responsible institutions. Based on the available data, they concluded that the EU anti money laundering measures is efficient, but further steps are needed to achieve higher international coordination and cooperation.

According to risk assessment conducted in 2016 by the national risk assessment it was identified that the overall risk of ML and TF of Ethiopia was medium and medium high respectively. from the assessment high level threat predicate crimes were known , and these include corruption ,tax fraud human trafficking and migrant smuggling , good smuggling ( contraband ), illegal hawala and fraud . With objectives of developing and strengthening the AML/CFT regime in Ethiopia to protect the integrity of the financial system, the national AML/CFT policy was formulated to step forward the fight against ML/TF in Ethiopia.

Lakew (2016) was studied the practices of Anti Money Laundering and Countering the Financing of Terrorism compliance by the Ethiopian Financial Intelligence Center by taking 8 banks and 23 experts of the Ethiopian Financial Intelligence Center different directorates. In line with this, the major findings of the study revealed that FIC face a considerable challenges to implement and practice anti-money laundering regime that is weak cooperation and coordination of law enforcement agency and regulatory bodies, the existence of large amount of informal sector and cash based economy, lack of sufficient skilled man power in the country, lack of willingness to report a suspicious report specially in private banks and rampant corruption are factor of challenges gained from the research finding.

Abebe (2016) also assessed a study on the practices and challenges of Commercial Banks on Anti-Money Laundering and Counter Financing of Terrorism through selected sample 6 banks and discussion with the concerned official of the Financial Intelligence Center of Ethiopia. The findings of this study revealed that deficiency exists in the Anti-Money Laundering and Counter Financing of Terrorism implementation of commercial banks in areas such as suspicious transaction reporting, implementing know your customer and customer due diligence measures and violating confidentiality code in contrast to regulatory requirements. This research could not indicate as the measures are effective.

### **2.3 Research Gap**

The amount of empirical studies of effectiveness of anti-money laundering countermeasures in banks in Ethiopia is inadequate. Researchers according to Kalkidan (2020) Ethiopia's anti-money laundering law has some inadequacies with regard to preventive measures such as (i) customer identification in case of politically exposed persons (PEPs), (ii) high risk jurisdiction customers, (iii) verification of the veracity of customer information in the absence which banks simply accept the information provided by the customer as true and valid without further verification, and (iv) lack of minimum threshold to identify beneficial owners. This research also identified that FIC faces challenges and gaps in clarity relating to STRs and owing to the level of understanding of the nature of the crime by the prosecution and the judiciary and there is lack of preliminary investigation on STRs made by bankers, and this results in duplication of unnecessary reports. Even though this research examined some challenges it could not confirmed that the counter measures are effective or not.

Mutual Evaluation Report by Southern Africa Anti-Money Laundering Group (ESAAM, 2015) the report pointed out that With the legal framework for ML/TF and international cooperation only recently in force, the recent establishment of a directorate for MLA/extradition at the Ministry of Justice in 2012, the limited number of ML cases being investigated, and the context of Ethiopia's isolation from the global financial and economic system, there has been little experience in sending or receiving requests for MLA/extradition in cases related to ML, TF or the associated predicate offences by either of the designated central authorities (Ministry of Justice or FIC). A further complication is the low staffing levels and efficient technology that facilities the management of cases and maintenance of accurate statistics, and to provide training on MLA and extradition. This study could not forecast the present status of counter measure effectiveness. Biniam (2011) studied on Money Laundering and Countermeasures: A Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector. But, this research could not identify how it was effective the financial institutions and FIC made countermeasures in reducing money laundering.

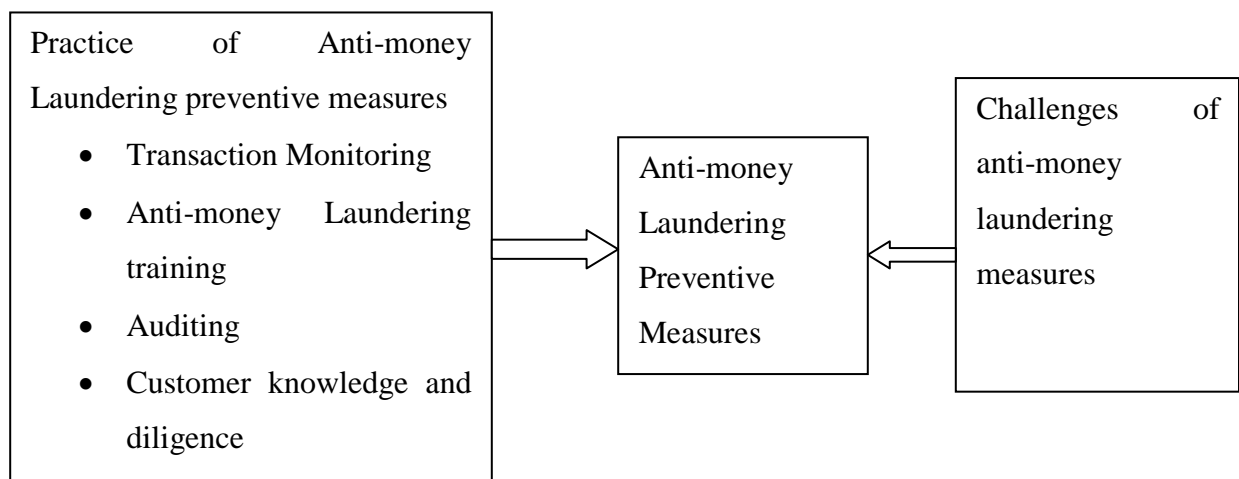
From the literature survey, it is observed and practical that majority of researches have been conducted only on anti-money laundering and countermeasures and laws related to counter

measures, there appear to dearth of literature about effectiveness of the countermeasures. Even though some researchers concentrated only on selected Ethiopian Commercial Banks and tried to demonstrate the efforts, difficulties and shortcomings they encountered during the implementation of AML and the challenges these narrow scopes call for more research on the subject of most of the challenges and vulnerabilities found in the selected banks may not be specific to the target banks alone. Further, research into the anti-Money Laundering counter measure effectiveness should also be studied by using commercial banks and financial intelligence center activities.

Therefore, there is a need and require to study the term anti-money laundering effectiveness in context of banks and Financial intelligence center. Thus, this research has made an attempt to empirically test the effectiveness of anti-money laundering preventive measures in Ethiopia: case study on commercial banks and financial intelligence center.

## **2.4 Conceptual Framework**

Based on the theoretical and empirical literature review the following conceptual framework has been formulated.



Source: Yohannes, (2021) and own compilation

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **Introduction**

The main objective of the study is to assess the effectiveness counter measures in combating money laundering. To this effect, this chapter involves the research design, the method of sampling, type of data source, tools of data gathering and analyzing of data are presented below.

#### **3.1 Research Type and Approach**

##### **3.1.1 Research Types**

According to Kothari (2004), a research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In fact, research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement, and analysis of data. Survey approach has been utilized to provide descriptive details to obtain a better understanding of the role of commercial banks in combating money laundering. Survey approach is mostly used in business and management researches to answer questions WH questions and associated with explanatory and descriptive research types (Creswell, 2012). This study basically employed descriptive research method which dwells by describing the current state of affairs which are policies and procedures, preventives measures, and challenges of commercial banks encounter in combating money laundering. Some case study/reports analysis has been used to compare and illuminate different aspects of effectiveness of the anti-money laundering maintained by financial institutions and financial intelligence center office. In descriptive study both quantitative and qualitative methods are used to analyze the data collected. Thus, the study tries to describe the effectiveness of commercial banks and financial intelligence center in combating money laundering.

### **3.1.2 Research Approach**

According to Creswell (2009), research approaches are plans and procedures for research that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. Qualitative and quantitative approaches should not be viewed as rigid, distinct categories, polar opposites, or dichotomies. Instead, they represent different ends on a continuum. A study tends to be more qualitative than quantitative or vice versa. Mixed methods research resides in the middle of this continuum because it incorporates elements of both qualitative and quantitative approaches (Ibid).

Quantitative research approach was implemented to look the cause and effect, and testing of theories and hypothesis (Muijs, 2010). This research approach involves survey, content analysis, experimental studies and non-experimental studies. Survey is a research design in quantitative research. It is a method used by social scientists to empirically and scientifically study and provide information about people and social phenomena (Lavrakas, 2008). For that reason, questionnaire was used by the researcher in this study to collect the attitude, behavior, experience and understanding of respondents toward the anti-money laundering effectiveness.

According to Kothari (2004), the qualitative approach of research is concerned with subject assessment of attitudes, opinions, and behavior; in this situation the researcher's role are understandings and impression. This research approach is an interpretive research in which the researcher has a direct contact with the participants. The main focus in qualitative research is to understand, explain, explore, discover and clarify situation, feelings, perceptions, attitudes, values, believes and experience of a group of people (Kumar, 2011). The qualitative method includes observation, and interview. In-depth Interviews are a very common research tool used in social science studies. Therefore, to achieve the intended objectives not addressed by structured questionnaire, structured and unstructured interview was also employ to address research objectives not addressed by structured questionnaire. Based on the above description, both quantitative and qualitative research approaches were chosen to this study.

## **3.2 Sampling Design**

### **3.2.1 Target Population of the Study**

Population is the entire aggregation/total of items from which samples can be drawn (Ilker, et al., 2016). Determining type and method of sampling mainly depends on the types of population that the study covers. There are eighteen Banks in Ethiopia. The study focuses on the commercial banks since the AML/CFT practice is being implemented only in the banking sector. Therefore, employees of risk and compliance staff of ten selected bank staffs and staffs of financial intelligence center were the target population.

### **3.2.2 Sampling Technique**

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

### **3.2.3 Sample Size**

Out of the 18 commercial banks operating in Ethiopia, the researcher has decided to select a sample of ten banks on the basis of year of establishment and assumed to have best experience in handling money laundering. Therefore, Commercial Bank of Ethiopia, Awash Bank, Dashen bank, Bank of Abyssinia, Wegagen bank, NIB, Cooperative bank of oromia, Lion international bank, Abay bank and Addis international bank were selected.

Table 3.1 Population of the Compliance Staff Members of selected Commercial Banks

S/N	Name of Bank	Total staff of Compliance Staff
	Commercial Bank of Ethiopia	11
1	Awash Bank	4
2	Dashen Bank	5
3	Bank of Abyssinia	8
4	Wegagen Bank	6
5	Nib International Bank	6
6	Cooperative bank of Oromia	6
7	Lion international Bank	4
8	Abay Bank	4
9	Addis international	3

Source: Quarter 4 Report of NBE (2021)

Thus, the sample sizes of this study are about 57 staffs of banks. For this research, other 10 staffs of financial intelligence were used as an additional interviewee.

### **3.3 Data Sources and Methods of Collection**

#### **3.3.1 Data Sources and Types**

Data was gathered from both primary and secondary sources. In an effort to obtain information relevant to the study both primary and secondary source of data were used as source of data. According to Hollensen (2007) primary data can be defined as “information that is collected first-hand, generated by original research tailor-made to answer specific current research questions”. There are several methods of collecting primary data, particularly in surveys and descriptive researches. Important ones are: observation, interview, questionnaires, depth interviews, and content analysis (Kothari, 2004).

### **3.3.2 Data Collection Methods**

For this study the researcher prepared structured questionnaire and interview to collect primary source of data and to achieve all the specific objectives. According to Saunders et al. (2009) structured questionnaire was used to collect data from different employees to gather the information needed for the research by using a five point likert response scale. This study established that the responses were measured on five point likert scale with 1= Strongly Disagree; 2= Disagree; 3= Neutral; 4= Agree; and 5 = Strongly Agree. The questionnaire has two parts; first part focuses mainly about the personal profiles of sample respondents such as age; gender, education status etc., whereas part two of the questionnaire deals with state of agreement by respondents on agreement state of different respondents on different practices of anti-money laundry (Transaction monitoring and reporting, AML Training for officers, Auditing, Know Your Customer and conducting Diligence and AML/CTF awareness in media is lower in the country) and effectiveness of countermeasures. Some previously arranged questionnaires were taken from different related sources. Structured and semi-structured interviews were used to gather information that would not be answered by questionnaire especially to assess the effective countermeasures taken by financial intelligence center.

### **3.3.3 Data Collection Procedure**

In the data collection process, the following procedures have been used:

- First briefing on the questioners was given to the selected respondents before the distribution of the questioner and then questioner was distributed to the respondents.
- Second depending on the distribution time, the questions were collected from the respondents after a week.
- Third reminder was making for the non- responding employees and lagged questioners would collect.
- Fourth the questioners have been coded and analyzed for usability of the questioners are making.



- Finally, the analysis of the data using different statistics on SPSS version 23 was made and this paper is produced.

### **3.3.4 Reliability and Validity Test**

According to Creswell (2014) validity is one of the strengths of quantitative and qualitative research and is based on determining whether the findings are accurate from the standpoint of the researcher, the participant, or the readers of an account. The questionnaire was carefully designed and tested with a few members of the population for further improvements. Content validity of the survey questionnaire was validated by professionals and some parts of the questionnaires were taken from previous documents and secondary sources in order to keep the validity.

To ensure the reliability of the measurement scales, Cronbach’s alpha was used in the calculation. Where by a higher value of above 0.7 indicated that the variables were reliable but anything below 0.7 was regarded inconsistent with the reliability scales.

Table 3.2 Rotated Factor Matrix analysis and reliability test

Items	Factor Loading	Cronbach’s Alpha (Reliability)
Transaction Monitoring and reporting		
The board is periodically monitoring the compliance risk exposure of the bank and provides high level direction.	0.795	0.747
The bank conducts risk based assessment on its customer base and their transactions.	0.823	
Relevant customer and transaction records are kept as required by applicable laws.	0.897	
Automated compliance system is in place to detect and report suspicious transactions	0.658	

AML Training for officers		
A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank's AML/CFT compliance program.	0.817	0.718
Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers.	0.864	
Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees.	0.846	
New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees.	0.781	
Auditing		
Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.	0.843	0.700
Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.	0.820	
The Bank have an internal audit function, a testing function that assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.	0.648	
The Bank has other independent third party to audit and assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.	0.881	
Know Your Customer and conducting Diligence		
Automated screening tool is in place to identify Politically Exposed Persons (PEPs).	0.667	0.872

Customers due diligence (CDD) procedures are carried out on customers on an ongoing basis.	0.887	
KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents.	0.811	
Customers are screened against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis.	0.778	
Accurate originators' and beneficiaries' information is captured during local and international wire transfer.	0.804	
Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions from high risk jurisdictions.	0.780	
Challenges for Anti-money laundering		
The Presence of high percentage of population that is without access to financial services and cash based economy.	0.838	0.715
The presence of unregulated and unlicensed money and value transfer services.	0.809	
Absence of National ID card hinders effective KYC procedures.	0.638	
Lack of technology to enhance the AML/CFT activities.	0.868	
Sufficient resource is not allocated to implement devised compliance program.	0.901	
AML/CTF awareness in media is lower in the country.	0.890	
All domestic stakeholders in the fight against ML/TF is not actively involved.	0.896	
Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult.	0.901	

Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country.	0.721	
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To assess the goodness of the instrument measures, the instrument was subjected to the construct validity and reliability tests. The construct validity was evaluated by factor analysis with eigen values of at least 1.0, and factor loading of at least 0.40. Table 3.2 above shows the factor loading for the five constructs that are loaded. Factor analysis was employed for all variables with multi-item scales. During all factor analysis procedures, principal axis factoring with eigen value greater than or equal to one extraction and Varimax rotation methods were employed. According to Dwivedi et al. (2006) items with factor loadings of less than 0.4 might be excluded from further analysis. All the questions extracted scales value had factor loading value greater than 0.4, were used in a subsequent analysis examination. Table above 3.2 also shows the reliability test for the variables. As shown in table above for the reliability test Cronbach's Alpha coefficients for all the variables range above 0.70. Based on the research scales and constructs, it can be concluded that each variable represents a reliable construct.

### **3.4 Methods of Data Analysis**

#### **3.4.1 Data Processing and analysis**

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989). The data received from respondent's has been sets into the statistical package for social sciences (SPSS) version 23 analysis and interpretation presented through mean and standard deviation for each attributes to evaluate the respondent's perception. Descriptive analysis was used to analyze data gathered through questionnaires. The data gathered through questionnaires was fed into SPSS to make the data ready for processing. At last presentation and report was done through graphs, figures, and tables. The arithmetic mean is a measure of central tendency which was used to represent data in an entire population. Standard Deviation is a widely used to measure the variability in statistics and probability theory. It shows how much variation there is from the mean. To make easy

interpretation using mean value, the following ranges of values were assigned to each scale: 1.50 or less = Strongly Disagree; 1.51- 2.50 = Disagree; 2.51- 3.49 = Neutral; 3.50 – 4.49 = Agree; and 4.50 and greater = Strongly Agree.

### **3.5 Ethical Consideration of the Study**

In doing any research as according to Leedy and Ormrod (2013), there is an ethical responsibility to do the work honestly and with integrity. Before the data collection, the ethical issues have been taken in to kindness when the study is conducted. Appropriate communication was undertaken with the respondents. During data collection respondents had informed the objective of the research. Anyone who was not interest to involve and bring any information was not included in the study. For the purpose of respondents security their names were not written on the questionnaire. As a general rule, therefore the study had not raised any ethical anxiety.

## **CHAPTER FOUR**

### **4. RESULT AND DISCUSSION**

#### **INTRODUCTION**

This chapter explains the analysis and interpretation part of the study. It focuses on assessing the effectiveness of anti-money laundering counter measures. The data collected is mainly based on respondents 'expectations and perceptions of the various items. The first part of the questionnaire consists of general background information of the respondents. The second part of the questionnaire presents the descriptive analysis on respondents on their agreement on the different aspects. In this analysis SPSS version 23 was used to make the necessary calculations.

#### **4.1 Response Rate of Respondents**

A total of 57 questionnaires were distributed to potential respondents and all are sufficiently answered and additional interviewees' responses were included.

Table 4.1 Response Rate

Question Distributed	Question Returned	Percentage
57	57	100%

As shown in the table 4.1above, regarding response rate of respondents, 57 questionnaires were distributed to the respondents and all were filled and returned properly with response rate of 100%. Based on this rate the next analysis was carried out.

## 4.2 Demographic factors of Respondents

Table 4.2 Analysis of demographic factors

No.	Factors	Categories	Frequency	Percentage (%)
1.	Gender	Female	21	36.8
		male	36	63.2
2.	Age Category of the respondents	18-25	15	26.3
		26-35	33	57.9
		36-45	9	15.8
3.	Educational Qualification	Masters and Above	36	63.2
		Degree	21	36.8
4.	Year of service in the bank	< 5 year	11	19.3
		6 to10 years	31	54.4
		Above 10 year	15	26.3
		Total	57	100

From the table 4.2 above about 63.2% of the respondents were male and about 36.84% of the respondents were female. From this finding one can infer that most of the respondents were male. In this research both genders were involved in the study and thus the finding of the study did not suffer from gender bias.

The age category indicates about 26.3% of the respondents was less than 25 years old, about 57.89% of them were within the aged of 26-35 years old, and about 15.79% of them were above the age of 35 years old. This is an indication that respondents were well distributed in terms of their age category. The age category implies that the respondents were comprised of heterogeneous groups in their age; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did not suffer from age bias.

The educational level of the respondents indicates that about 63.16% of them were master degree holders, and about 36.84% of them were degree holders. Majority of the respondents participated in this study were degree holders in their educational level. Thus, one can infer that respondents

assumed to have best knowledge in the anti-money laundering practices and its effectiveness and the way how to solve it.

From the total length of years' respondents were working in the banks indicates that about 19.3% of them were within the year of less than years, about 54.4% were working 6-10 years, about 26.3% of them were working above 10 years. Thus, most of the respondents have above five year work experience in the banks.

### 4.3 The Practices of Anti money laundering Prevention in Commercial banks

#### 4.3.1 Transaction monitoring and reporting

Table 4.3 Analyzing transaction monitoring and reporting

Questionnaire	Responses					Mean	Std. Dev
	1	2	3	4	5		
The board is periodically monitoring the compliance risk exposure of the bank and provides high level direction.	8 (14%)	7 (12.3%)	3 (5.3%)	21 (36.8%)	18 (31.6%)	3.6	1.4
The bank conducts risk based assessment on its customer base and their transactions.	4 (7%)	6 (10.5%)	5 (8.8%)	26 (45.6%)	16 (28.1%)	3.77	1.18
Relevant customer and transaction records are kept as required by applicable laws.	6 (10.5%)	3 (5.3%)	3 (5.3%)	24 (42.1%)	21 (36.8%)	3.89	1.26
Automated compliance system is in place to detect and report suspicious transactions	18 (32%)	20 (35%)	4 (7%)	4 (7%)	11 (19%)	2.46	1.5
Grand Mean						3.43	



In the first sub-construct of the transaction monitoring and reporting measures majority of them about 36.8% were agreed that the board is periodically monitoring the compliance risk exposure of the bank and provides high level direction. The mean score 3.6 indicates that agreement between the respondents but with high standard deviation 1.412. Thus, the banks' board conducts periodic monitoring about the compliance risk. In the second sub-construct most of the respondents about 45.6% of them were agreed that the bank conducts risk based assessment on its customer base and their transactions. The mean score 3.77 indicates that there is agreement between the respondents with small standard deviation value 1.18. Therefore, from this one can infer that banks in Ethiopia assess on its customer base and their transactions.

In the third sub-construct most of the respondents about 42.1% of them were agreed that relevant customer and transaction records are kept as required by applicable laws. The mean score 3.89 indicates that majority of the respondents were agreed with small standard deviation value 1.263. This finding is supported by World Bank (2004) and Basel Committee on Banking Supervision (2006). Thus, one can infer and conclude that banks record and kept safe their customer and transactions records. In the fourth sub-construct most of the respondents about 35% of them were disagreed that automated compliance system is in place to detect and report suspicious transactions. The mean score 2.46 indicates majority of the respondents were disagreed that automated compliance system is in place to detect and report suspicious transactions. The standard deviation value 1.501 indicates sing high response variation among the respondents. Therefore, banks in Ethiopia didn't place the automated compliance system to detect and report suspicious transactions. The grand mean 3.43 shows that almost all respondents were neutral in this preventive measure.

### 4.3.2 AML Training for officers

Table 4.4 Anti-money laundering training for officers of banks

Questionnaire	Responses					Mean	Std. Dev
	1	2	3	4	5		
A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank's AML/CFT compliance program.	10 (17.5%)	3 (5.3%)	6 (10.5%)	24 (42.1%)	14 (24.6%)	3.51	1.39
Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers.	22 (38%)	24 (42%)	6 (11%)	5 (9%)		1.88	0.927
Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees.	26 (45.6%)	21 (36.8%)	5 (8.8%)	4 (7%)	1 (1.8%)	1.82	0.984
New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees.	23 (40.4%)	30 (52.6%)	3 (5.3%)	1 (1.8%)		1.68	0.659

In the first sub-construct most of the respondents about 42.1% of them were agreed that a compliance officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank's AML/CFT compliance program. The mean score 3.51 with high standard deviation value 1.39 indicates average agreement between the respondents. Thus, banks have senior compliance officers who have relevant competence and authority to oversee the bank's AML/CFT compliance program.

In the second sub-construct most of the respondents about 42% were disagreed that regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers. The mean score 1.88 with small standard deviation value 0.927 indicates that respondents were disagreed that regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers. Therefore, from this finding one can infer that banks did not give regular training for their compliance officers.

In the third sub-construct most of respondents which were about 45.6% were strongly disagreed that existing AML/CFT policies, procedures and manuals are communicated to the concerned employees. The mean score 1.82 indicates that most of the respondents were agreed with small standard deviation value 0.984. Thus, one can infer that banks did not communicate the AML policies, procedures and manuals are communicated to the concerned employees. In the fourth sub-construct most of the respondents about 52.6% were disagreed that new AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees. The mean score 1.68 indicates that respondents were agreed with this statement with small standard deviation value 0.659. Thus, one can infer that banks do not communicate New AML/CFT related laws or changes to the existing policies or practices to concerned employees.

### 4.3.3 Auditing practice of the banks

Table 4.5 Analysis of Auditing practice of banks

Questionnaire	Responses					Mean	Std. Dev
	1	2	3	4	5		
Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.	9 (15.8%)	4 (7%)	9 (15.8%)	18 (31.6%)	17 (29.8%)	3.53	1.4
Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.	22 (38.6%)	7 (12.3%)	18 (31.6%)	6 (10.5%)	4 (7%)	2.35	1.289
The Bank have an internal audit function, a testing function that assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.	6 (10.5%)	7 (12.3%)	10 (17.5%)	19 (33.3%)	15 (26.3%)	2.4	1.4
The Bank has other independent third party to audit and assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.	23 (40.4%)	8 (14%)	12 (21.1%)	8 (14%)	6 (10.5%)	2.33	1.5
Grand Mean						2.65	

In the first sub-construct most of the respondents about 31.6% of them were agreed that Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks. The mean score 3.53 indicates that respondents were agreed with high standard

deviation value 1.403. From this finding one can indicate that banks adopt Risk Based Approach to assess their exposure to money laundering and terrorist financing risks.

In the second sub-construct majority of the respondents about 38.6% of them were strongly disagreed that about regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program. The mean score 2.35 indicates that most of the respondents were disagreed with small standard deviation value 1.289. In the third sub-construct majority of the respondents about 33.3% of them were agreed that the Bank have an internal audit function, a testing function that assesses FCC, AML, CTF and Sanctions policies and practices on a regular basis. The mean score 3.53 indicates that agreement among the respondents with small 1.297 which indicates that high response variation among the respondents. Thus, banks in Ethiopia had internal audit function to assess anti-money laundering and sanctions and practices. The interviewee said that there are senior officials who investigate, follow-up and monitor cash transactions and money laundering activities. In the fourth sub-construct majority of the respondents about 40.4% of them were strongly disagreed about the Bank has other independent third party to audit and assesses FCC AML, CTF and Sanctions policies and practices on a regular basis. The mean score 2.4 indicates that disagreement among the respondents. This finding indicates the banks have no other independent third party to audit and assess FCC, AML, CTF and sanctions policies and practices. All in all the grand mean 2.65 shows that most of the respondents were neutral in this preventive measures.

#### 4.3.4 Know Your Customer (KYC) and conducting Diligence practice of the banks

Table 4.6 Analysis of Know Your Customer (KYC) and conducting Diligence practice of the banks

Questions	Responses						
	1	2	3	4	5	Mean	Std. dev
Automated screening tool is in place to identify Politically Exposed Persons (PEPs).	25 (43.9%)	14 (24.6%)		10 (17.5%)	8 (14%)	2.33	1.36
Customers due diligence (CDD) procedures are carried out on customers on an ongoing basis.	6 (10.5%)	12 (21.1%)	12 (21.1%)	11 (19.3%)	16 (28.1%)	3.33	1.367
KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents.	4 (7%)	5 (8.8%)	12 (21.1%)	12 (21.1%)	24 (42.1%)	3.82	1.26

Customers are screened against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis.	4 (7%)	10 (17.5%)	7 (12.3%)	20 (35.1%)	17 (28.1%)	3.6	1.26
Accurate originators' and beneficiaries' information is captured during local and international wire transfer.	9 (15.8%)	7 (12.3%)	2 (3.5%)	16 (28.1%)	23 (40.4%)	3.65	1.5
Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions from high risk jurisdictions.	7 (12.3%)	4 (7%)	2 (3.5%)	13 (22.8%)	31 (54.4%)	4.0	1.4
Grand Mean						3.45	

Based on the table above result in the first sub-construct most of the respondents about 43.9% of them were strongly disagreed that Automated screening tool is in place to identify Politically Exposed Persons (PEPs). The mean score 2.33 indicates that most of the respondents were disagreed with high standard deviation value 1.36. Therefore, there is no automated screening tool in Ethiopia to identify Politically Exposed Persons (PEPs). The interview response also confirmed that law concerning record keeping in the banks should be revised to make it sufficient enough to prevent and detect money laundering activities in this respect. The other measure was there must be an automatic technology that enables data to be cross-checked with

other sources of information on organized crime. Additionally, the interviewee suggest that despite the FIC had their accountability been for the parliament, the independence of FIC should be guaranteed in different ways because may be vulnerable to a political pressure from the executive organ.

In the second sub-construct majority of the respondents about 28.1% of them were strongly agreed that customers due diligence (CDD) procedures are carried out on customers on an ongoing basis. The mean score 3.3 indicates that they were indifferent about the case with high standard deviation 1.367 which indicates that high response variation among the respondents. This finding is supported by suggestion of Financial Action Task Force (FATF, 2004) that argued financial institutions should be required to pay special attention to all complex, unusual large transactions, or unusual patterns of transactions.

In the third sub-construct majority of them about 42.1% were strongly agreed that KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents. The mean score 3.82 indicates that majority of the respondents were agreed on KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents. In the fourth sub-construct majority of the respondents about 35.1% of them were agreed that customers are screened against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis. The mean score 3.6 indicates that banks screen UN international sanctioned individuals before establishing business relationship. Thus, banks screen UN international sanctioned individuals before establishing business relationship.

In the fifth sub-construct most of them about 40.4% were strongly agreed that accurate originators' and beneficiaries' information is captured during local and international wire transfer. The mean score 3.65 shows respondents were agreed but with high standard deviation value 1.5 which indicates high response variation among the respondents. Therefore, banks capture originators and beneficiaries information during international wire transfer. In the sixth and last sub-construct most of the respondents about 54.4% of them were strongly agreed that enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident



customers and transactions from high risk jurisdictions. The mean score 4.0 also infer that average agreement between the respondents but with high response variation standard deviation 1.4. Thus, banks conduct customer due diligence on high risk customers. The grand mean 3.45 shows most of the respondents were neutral.

#### 4.4 Challenges of Anti-money laundering Preventive measures

Table 4.7 Analysis of Challenges of anti-money laundering

Questions	Responses					Mean	Std.dev
	1	2	3	4	5		
The Presence of high percentage of population that is without access to financial services and cash based economy.	3(5.3%)	5(5.3%)	4(7%)	11(19.3%)	36(63.2%)	4.3	1.14
The presence of unregulated and unlicensed money and value transfer services.	3(5.3%)	5(8.8%)	31(54.4%)	13(22.8%)	5(8.8%)	3.21	0.92
Absence of National ID card hinders effective KYC procedures.	2(3.5%)	1(1.8%)		10(17.5%)	44(77.2%)	4.63	0.879
Lack of technology to enhance the AML/CFT activities.	3(5.3%)	2(3.5%)	2(3.5%)	16(28.1%)	34(59.6%)	4.33	1.07
Sufficient resource is not allocated to implement devised compliance program.	3(5.3%)	2(3.5%)	3(5.3%)	9(15.8%)	40(70.2%)	4.42	1.1
AML/CTF awareness in media is lower in the country.	3(5.3%)	2(3.5%)	4(7%)	12(21.1%)	36(63.2%)	4.33	1.1

All domestic stakeholders in the fight against ML/TF are not actively involved.	3(5.3%)	2(3.5%)	3(5.3%)	9(15.8%)	40(70.2%)	4.42	1.1
Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult.	3(5.3%)	2(3.5%)	3(5.3%)	9(15.8%)	40(70.2%)	4.42	1.1
Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country.	24(42.1%)	10(17.5%)	9(15.8%)	8(14%)	6(10.5%)	2.33	1.15

Based on the finding from table above in the first sub-construct most of respondents about 63.2% of them were strongly agreed that the presence of high percentage of population that is without access to financial services and cash based economy. The mean score 4.3 also indicates that majority of the respondents were agreed with small standard deviation 1.14. This finding is consistent with Yepes (2011), as population size, is the major challenge in implementing AML/CTF in financial services of a country. Thus, presence of high population in Ethiopia that didn't access to financial services and absence of cashless society was one of the challenges to control money laundry.

In the second sub-construct most of the respondents about 54.4% of them were indifferent that the presence of unregulated and unlicensed money and value transfer services. The mean score 3.21 also indicates that respondents were neutral with low standard deviation 0.92 that indicates homogeneity of their response. In the third sub-construct most of the respondents about 77.2% of them were strongly agreed that absence of National ID card hinders effective KYC procedures. The mean score 4.63 also indicates that most of them were agreed with very low standard deviation value 0.987 which indicates that homogeneity of response among the respondents. Thus, the absence of national ID card for customers was the other challenge to know the customers.

In the fourth sub-construct most of the respondents about 59.6% of them were strongly agreed that lack of technology to enhance the AML/CFT activities. The mean score 4.33 indicates that most of the respondents were agreed with small standard deviation value 1.07. Therefore, there is absence of technology to improve AML/CFT activities. Concerning the fifth sub-construct most of them about 70.2% of them were strongly agreed that sufficient resource is not allocated to implement devised compliance program. The mean value 4.42 indicates that majority of the respondents were agreed on the statement. Therefore, there are not sufficient resources allocated to implement devised compliance program in banks.

In the sixth sub-construct most of the respondents about 63.2% of them were strongly agreed that AML/CTF awareness in media is lower in the country. The mean score 4.33 also indicates that most of the respondents were agreed that AML/CTF awareness in media is lower in the country. This finding is consistent with African Development Bank (2007) that revealed implementing comprehensive AML/CFT policies in the context of developing countries offers some unique challenges. Thus, from this finding one can infer that there is no awareness of anti-money laundry with media in Ethiopia. In the seventh sub-construct most of them about 70.2% of them were strongly agreed that all domestic stakeholders in the fight against ML/TF are not actively involved. The mean score 4.42 also indicates that majority of them were agreed that all domestic stakeholders in the fight against ML/TF are not actively involved. Therefore, from this finding one can infer that domestic stakeholders are not actively involved fighting money laundry. In the eighth sub-construct with mean score 4.42 indicates most of the respondents about 70.2% of them were strongly agreed that integrating AML/CFT requirements with business objectives, clients, products and processes is difficult. This finding also supported by Biniam (2011) who argued that due to the clandestine nature of money laundering and the absence of consolidated data, it is impossible to extrapolate the amount of money laundered in Ethiopia. In the ninth and last sub-construct most of the respondents about 42.1% of them were strongly disagreed that absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country. The mean value 2.33 also indicates that most of the respondents were disagreed. Therefore, there are some laws of limit for physical possession of cash deposit and integrating anti-money laundry requirement with business objectives and process is not difficult.

From interviews made with compliance officers they explained *the effective control of anti-money laundering in their institution* that each bank has done its own risk assessment and identified high risk customers. However, in order to solve and reduce the money laundering, the involvement of Ethiopian Archives and Library Agency in the records of banking could not sufficiently work on its scope. There had not been a provision in the anti-money laundering proclamation about record keeping with specified years.

All the interviewed respondents agreed that the FIC get formal report only from Reports by Financial Institutions but could not get reports from Reported by Land Offices, Investment Consultants and other Channels. The Ethiopian financial intelligence unit identified several cases in which different foreign and local persons were used as different mechanisms to facilitate money laundering by making the links between victims and offenders. Banks had no suspicions, as the money was not transferred via banking methods. Thus, in the banking system, there was no connection between the origin of the money and the victims of fraud. These types of cases challenged the center to immediately identify the original launderers. Lack of understanding of money laundering risks by government officials and reporting entities and only a preliminary understanding of anti-money laundering obligations was the other challenge to effectively control illegal money laundering.

#### **4.5 Case Studies Analysis from Suspicious Transaction reporting**

Suspicious Transaction Report (STR) is a fundamental element of international anti-money laundering systems that require financial institutions including banks to report their suspicion to the concerned authority. Banks in Ethiopia are required to report to the Financial Intelligence Center (FIC) when they suspect or have reasonable ground to suspect that funds are proceeds of crime and all suspicious transactions regardless of the amount of transactions including attempts.

The researcher asked the center officials to identify the reported suspicious transactions and asked whether they easily maintain or faced challenges to solve cases. The reported suspicious transactions and challenges to handle the cases were listed and discussed below. These reports were found from the financial intelligence center compiled reports.

All information; requests for information; reports about suspicious transactions, activities, or unusual transactions; statements of suspicion, as well as threshold reports or other types of data and information received by the financial intelligence center were analyzed according to the technical and human capacity of center. The analyses performed resulted in information on the most representative money laundering typologies and techniques in terms of frequency, volume of transactions, or economic and social impact for the activity of August 2020 up to December 2021.

There is one case faced the center that to guard against impersonation and fraud for the opportunity of opening the new account. The customer has previous business relationship with banks. But, after some years the customer tried to open new business account. The center could not get sufficient business information to confirm the relevant details and to provide any missing KYC information especially where: there was an existing business relationship with the customer and identification evidence had not previously been obtained. There had been no recent contact or correspondence with the customer within the past three years. This type of cases challenged to center as customers' information is not readily accessible to the Compliance Officers and the Center or to other competent and regulatory authority. The officers said that transactions or patterns of transactions that is inconsistent with a customer's known, legitimate business or personal activities or normal business for that type of account or that lacks an obvious economic rationale has been identified and assessed and give solutions but with different challenges to effectively handle the cases. Cash transaction by a nonprofit or religious organization, for which there appears to be no logical economic purpose or for which there appears to be no link between the stated activity of the organization and other parties in the transaction; where the stated occupation of the customer is inconsistent with the type and level of account activity.

When conducting "non-face-to-face" business with clients that have not been physically present for the purposes of identification and verification, some financial Institutions only use phone conversation to confirm. The individual was just resigned from the office without the regional office immediately informing to bank. The problem was failure to report to bank the delete the signatory from their account. The one who have right to sign was the resigned employee from the office. In order to minimize these types of cases Financial Institutions shall at a minimum require two pieces of formal identification which have been certified appropriately by a notary public or court of competent jurisdiction, senior public servant.

Table 4.8 Summary of secondary source of data about reported suspicious transaction types from banks and challenges to handle the cases

<b>Reported common suspicious transactions from financial institutions.</b>	<b>Challenges to take actions</b>
<ul style="list-style-type: none"> <li>➤ Unusual pattern of transaction.</li> <li>➤ Suspicious transactions with the amount.</li> <li>➤ Large or complex transactions.</li> <li>➤ Payment received from unknown or un-associated third parties.</li> <li>➤ Cash transaction by a nonprofit or religious organization.</li> <li>➤ Counterfeiting currency.</li> <li>➤ Smuggling (including in relation to customs and excise duties and taxes).</li> </ul>	<ul style="list-style-type: none"> <li>• New Business Relation by an Existing Customer.</li> <li>• Challenges of Non Face-to-Face Transaction.</li> <li>• Certification of Documentary evidences in the case of foreign nationals, the copy of international passport, national identity card or documentary evidence of his address shall be certified.</li> <li>• Financial institutions unable to take the photographic evidence of identity.</li> <li>• Forgery of a copy of evidence taken by banks to identify the exact fraud.</li> <li>• Getting sufficient information about a correspondent institution.</li> <li>• The existence of large amount of informal sector and cash based economy, lack of sufficient skilled man power in the country, lack of willingness to report a suspicious report especially in private banks and rampant corruption are factor of challenges gained from the research finding.</li> <li>• Customers' information is not readily accessible to the Compliance Officers and the Center or to other competent and regulatory authority.</li> </ul>

Source: FIC (2021)

## **CHAPTER FIVE**

### **5. SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary of the Finding**

Based on the finding the major findings were summarized:

- Most of the respondents were male. In this research both genders were involved in the study and thus the finding of the study did not suffer from gender bias.
- Respondents were well distributed in terms of their age category. The age category implies that the respondents were comprised of heterogeneous groups in their age; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did not suffer from age bias
- Majority of the respondents participated in this study were degree holders in their educational level. Thus, one can infer that respondents assumed to have best knowledge in the anti-money laundering and the way how to solve it.

Most of the respondents were agreed that banks' board conducts periodic monitoring about the compliance risk; banks in Ethiopia assess on its customer base and their transactions; and banks record and kept safe their customer and transactions records. Commercial banks in Ethiopia didn't place the automated compliance system to detect and report suspicious transactions.

Banks in Ethiopia adopt Risk Based Approach to assess their exposure to money laundering and terrorist financing risks; however no regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program. Financial institutions in Ethiopia had internal audit function to assess anti-money laundering and sanctions and practices, but they do not have other independent third party to audit and assess FCC, AML, CTF and sanctions policies and practices.

Most of the respondents were agreed that customers due diligence procedures are carried out on customers on an ongoing basis, KYC procedure is conducted and AML/CFT controls are

assessed by financial institutions before establishing business relationship with potential correspondent banks and money transfer agents. There is a screening process on UN international sanctioned individuals before establishing business relationship. There is an enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and transactions from high risk jurisdictions. However, there is no automated screening tool in Ethiopia to identify Politically Exposed Persons.

The respondents were agreed that presence of high population in Ethiopia that didn't access to financial services and absence of cashless society was one of the challenges to control money laundry. The absence of national ID card for customers was the other challenge to know the customers, there is absence of technology to improve AML/CFT activities, there are not sufficient resources allocated to implement devised compliance program in banks, there is no awareness of anti-money laundry with media in Ethiopia, domestic stakeholders are not actively involved fighting money laundry, integrating AML/CFT requirements with business objectives, clients, products and processes is difficult. The finding shows that the financial intelligence center get formal report only from Reports by Financial Institutions but the center could not get reports from Reported by Land Offices, Investment Consultants, real estate companies and other Channels. These challenges harm the effective control and monitoring of money laundering process of the country.

## **5.2 Conclusion of the Study**

Even though Banks have senior compliance officers who have relevant competence and authority to oversee the bank's AML/CFT compliance program, no regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers. Commercial banks did not communicate the AML policies, procedures and manuals are to the concerned employees as well as do not communicate new Anti-money laundering related laws or changes to the existing policies or practices to concerned employees. Additionally, the anti-money laundering awareness in media is lower in the country. Therefore, based on the finding one can conclude that even though Ethiopia has made a remarkable progress in fighting money



laundering activities; gaps are still remaining and money laundering activities could not be effective.

This study conclude that Due to the concealed nature of money laundering and the absence of consolidated data, it is impossible to identify the amount of money laundered in Ethiopia; however, there are indications that money laundering is taking place in the country. Smuggling, Corruption and tax evasion are the main threats for the country that heavily harm the country. The issue of payment systems in the banking sector and the emergency of contactless technologies necessitate emphasis on money laundering matters but no law in the country about payment system.

The law concerning KYC requirements and other preventive measures suffer difficulty and such gaps create a suitable ground for money launderers to exploit the banking system. Generally, based on the research finding one can conclude from this study that the Ethiopia anti-money laundering measures is not efficient and further steps are needed to achieve different companies' cooperation with financial intelligence center.

### **5.3 Recommendation**

Based on the finding the following recommendations have been made:

- There must be an additional coordination between financial intelligence center and different organizations that should make appropriate processes in place that allow for the identification of unusual transactions, patterns and activity that is not consistent with the customer's risk profile.
- Banks should include required and accurate originator information, and required beneficiary information, on wire transfers and related messages, and that the information remains with the wire transfer or related message throughout the payment chain.
- Banks ought to have appropriate procedures and policies to deal with customers who have not had contact for some time, such as dormant accounts or relationships, to be able to identify future reactivation and unauthorized use.

- The audit function should be separate from the compliance administration function, in order to test and assure the adequacy of the overall compliance function. Banks also need to have other independent third party to audit and assess FCC, AML, CTF and sanctions policies and practices.
- Financial intelligence center with banks should investigate politicians, statesmen, ministers; they might take bribes and would prefer to transfer the bribe money into foreign banks or other investments which lead to money laundering.
- Reducing cash payment system and improving the country's payment system is another standard move. However, there must be an automatic technology that enables data to be cross-checked with other sources of information on organized crime.
- The financial intelligence center Authorities should consider give usual training to the staff of the FIC, banks and NBE to enable the FIC to carry out analyzing and disseminating suspicious transaction reports effectively.
- The financial intelligence center should also further strengthen physical and information technology security systems within its premises to ensure that access to information is restricted to authorized persons.
- The law concerning record keeping in the banks should be revised to make it sufficient enough to prevent and detect money laundering activities in this respect.
- Despite the FIC had their accountability been for the parliament, the independence of FIC should be guaranteed in different ways because may be vulnerable to a political pressure from the executive organ.

#### **5.4 Suggestion for Further Study**

It is recommended to employ further study on analyzing the role of information technology for Effectiveness of Anti-money laundering preventive measures in Ethiopia: further on other financial institutions, real-estate and other companies. Furthermore, it is better to study different trends such not included in this study and they are areas yet to be investigated in the future study.

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**Appendix**

**Questionnaire**

**ST.MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

This questionnaire is prepared to collect data for the research to be conducted titled as: Effectiveness of Anti-money laundering preventive measures in Ethiopia: Case study on Commercial banks and financial intelligence center: a critical analysis specific to Ethiopian commercial banking sector. The research conducted is as a partial fulfillment of the requirements for the degree of masters of business administration (MBA) in general management at St. Mary's university.

This is, therefore, to request that you provide appropriate & genuine data to the best of your knowledge for each question listed below. I would like to assure you that the information obtained will only be used for the purpose of the research. Finally, I would like to express my gratitude in advance for your cooperation.

**PART ONE: Background Information**

Questionnaire for compliance/risk staff of a bank

Name of the bank.....

Job position.....

1. Gender of the respondents

- a. Male
- b. Female

2. Age Category

- A) 18-25
- B) 26-35
- C) 36-35
- D) 46-55
- E) Above 55



3. Educational Level

- A) Diploma
- B) Degree
- C) Masters and above

4. Year of service in the bank

- A) < 2 year
- B) 3 to 5 years
- C) 6 to 10 years
- D) 11 to 19 years
- E) Above 20 years

**PART TWO: Anti money laundering Preventive Measures**

Key: 1= strongly disagree    2= disagree    3= neutral    4=agree    5= strongly agree

No.	Statement	1	2	3	4	5
<b>Transaction monitoring and reporting</b>						
1.	The board is periodically monitoring the compliance risk exposure of the bank and provides high level direction.					
2.	The bank conducts risk based assessment on its customer base and their transactions.					
3.	Relevant customer and transaction records are kept as required by applicable laws.					
4.	Automated compliance system is in place to detect and report suspicious transactions					
<b>AML Training for officers</b>						
5.	A Compliance Officer is designated at a senior management level alongside appropriate employees with relevant competence and authority to oversee the bank’s AML/CFT compliance program.					
6.	Regular training is provided to concerned employees on the various aspects of money laundering and terrorist financing alongside methods of identification and reporting suspicious transaction and customers.					

7.	Existing AML/CFT policies, procedures and manuals are communicated to the concerned employees.					
8.	New AML/CFT related laws or changes to the existing policies or practices are timely communicated to concerned employees.					
<b>Auditing</b>						
9.	Risk Based Approach is adopted to assess the bank's exposure to money laundering and terrorist financing risks.					
10.	Regular supervision is conducted on branches and subsidiaries to ensure the effective implementation of the compliance program.					
11.	The Bank have an internal audit function, a testing function that assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.					
12.	The Bank has other independent third party to audit and assesses FCC AML, CTF and Sanctions policies and practices on a regular basis.					
<b>Know Your Customer and conducting Diligence</b>						
13.	Automated screening tool is in place to identify Politically Exposed Persons (PEPs).					
14.	Customers due diligence (CDD) procedures are carried out on customers on an ongoing basis.					
15.	KYC procedure is conducted and AML/CFT controls are assessed before establishing business relationship with potential correspondent banks and money transfer agents.					
16.	Customers are screened against international SDN sanctioned lists such as; UN before establishing business relationship and on an ongoing basis.					
17.	Accurate originators' and beneficiaries' information is captured during local and international wire transfer.					
18.	Enhanced customer due diligence is conducted on high risk customers such as, PEPs, NGOs, Non-resident customers and					

	transactions from high risk jurisdictions.					
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**Part III. Challenges of Anti-money laundering.**

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

S/N	Statement	1	2	3	4	5
1	The Presence of high percentage of population that is without access to financial services and cash based economy.					
2	The presence of unregulated and unlicensed money and value transfer services.					
3	Absence of National ID card hinders effective KYC procedures.					
4	Lack of technology to enhance the AML/CFT activities.					
5	Sufficient resource is not allocated to implement devised compliance program.					
6	AML/CTF awareness in media is lower in the country.					
7	All domestic stakeholders in the fight against ML/TF is not actively involved.					
8	Integrating AML/CFT requirements with business objectives, clients, products and processes is difficult.					
9	Absence of law that limit for physical possession of cash encourages illicit deposit or use of ill-gotten cash in the country.					

## **Interview Questions**

1. In your opinion how do you explain the effective control of anti-money laundering in your institution?
2. Does your institution appoint a senior officer responsible for your institution's anti-money laundering program?
3. In order to effectively solve the money laundering practices what effective measurements did you take?
4. What challenges does your institution face in solving money laundering and terrorism?