



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF MONEY LAUNDERING AND ITS  
CONSEQUENCES: THE CASE OF DASHEN BANK SHARE  
COMPANY**

**By: Meseret Chernet Tesema  
ID number: SGS 0192/2010**

June, 2022  
ADDIS ABABA, ETHIOPIA

**ASSESSMENT OF MONEY LAUNDERING AND ITS  
CONSEQUENCES: THE CASE OF DASHEN BANK SHARE  
COMPANY**

**By**

**Meseret Chernet Tesema**

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION

June, 2022  
ADDIS ABABA, ETHIOPIA

**ST. MARY’S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**SCHOOL OF BUSINESS**

**“ASSESSMENT OF MONEY LAUNDERING AND ITS  
CONSEQUENCES: THE CASE OF DASHEN BANK SHARE  
COMPANY”**

**By  
Meseret Chernet Tesema**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, School of Business**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Internal Examiner**

## DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asst. Professor Shoa Jemal. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Meseret Chernet

Name

\_\_\_\_\_  
Signature

**St. Mary's University, Addis Ababa, June, 2022**

## ENDORSEMENT

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

Shoa Jemal

\_\_\_\_\_

Advisor

Signature

**St. Mary's University, Addis Ababa, June, 2022**

## **ACKNOWLEDGMENTS**

First of all, my heartfelt thanks go to Almighty God for the blessing-full knowledge, inspiration and diligence required for the successful completion of this study and for making my dream a reality.

I would like to express my sincere gratitude and appreciation to my advisor Dr. Shoa Jemal for his invaluable constructive comments, professional advice and patience in the preparation of this thesis.

Further, I would also like to thank all Risk and Compliance management department staffs, Internal control staffs and Financial Intelligence Center officers, and those who contributed and cooperated me during the research by responding my questionnaires and interview questions and who assisted directly or indirectly to acquire the necessary data.

Finally, I would like to thank my husband and those who have provided uninterrupted support and stood beside me from beginning to end throughout the whole process in my entire study.

## Table of Contents

<b><u>Content</u></b>	<b><u>Page</u></b>
ACKNOWLEDGMENTS .....	vi
LIST OF ACRONYMS .....	ix
LIST OF TABLES .....	x
LIST OF FIGURE .....	xi
ABSTRACT.....	xii
CHAPTER ONE .....	1
1. INTRODUCTION .....	1
1.1. Background of the Study.....	1
1.2. Statement of the Problem.....	3
1.3. Research Questions .....	4
1.4. Objective of the Study.....	5
1.4.1. General Objective .....	5
1.4.2. Specific objectives .....	5
1.5. Significance of the Study .....	5
1.6. Scope of the Study .....	5
1.7. Limitation of the study.....	6
1.8. Organization of the research document.....	6
CHAPTER TWO .....	7
2. LITERATURE REVIEW .....	7
2.1. Introduction.....	7
2.2. Theoretical perspectives of money Laundering .....	7
2.3. Definition of Money Laundering .....	8
2.4. Money Laundering Process.....	11
2.5. International Anti Money-Laundering clean-up organizations .....	13
2.6. Legal Framework, Operational Developments and Internal and External Cooperation .....	17
2.7. Empirical studies.....	18
CHAPTER THREE .....	20
3. RESEARCH DESIGN AND METHODOLOGY .....	20
3.1. Introduction.....	20

3.2.	Research Design.....	20
3.3.	Research Method.....	20
3.4.	Data Collection Procedure (Sampling Technique).....	21
3.5.	Data Collection Techniques .....	21
3.7.	Reliability and Validity test .....	22
CHAPTER FOUR.....		23
4.	DATA ANALYSIS AND INTERPRETATION .....	23
4.1.	Introduction.....	23
4.2.	Results and Discussions .....	23
4.2.1.	Aspects contributing to Money Laundering.....	23
4.2.1.1	Vulnerability Issues.....	23
4.3.	Methods of Money Laundering.....	29
4.4.	Dashen Bank SC's Performance on implementation of Anti Money Laundering .....	31
4.5.	Challenges to Fight Money Laundering in Dashen bank S.C. ....	36
4.6.	Consequences of Money Laundering.....	37
CHAPTER FIVE .....		40
5.	SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .....	40
5.1.	Introduction.....	40
5.2.	Summary of Findings.....	40
5.2.	Conclusion .....	43
5.3.	Recommendations.....	44
REFERENCES .....		46
APPENDICES .....		51
<i>Appendix I: Research Questionnaire and Interview on consequences of Money laundering in Dashen bank S.C</i> .....		51
<i>Appendix-II: Background Data</i> .....		57
<i>Appendix-III: Respondents Anti Money Laundry Awareness at Dashen Bank SC</i> .....		57
<i>Appendix-IV: Dashen Bank SC AML Performance Statistics (Mean (Descriptive statistics) )</i> .....		58
<i>Appendix-V: Dashen Bank SC Money Laundering Vulnerability Issues Statistics</i> .....		59
<i>Appendix-VI: Statistics for possible effects of money laundering at Dashen Bank SC</i> .....		60



## **LIST OF ACRONYMS**

AML	Anti Money Laundering
CB's	Commercial Banks
CDD	Customer Due Diligence
CFT	Combating Terrorist Financing
CSRP	Civil Service Reform Program
CTR	Cash Transaction Report
DAG	Development Agency Group
ERCA	Ethiopian Revenue and Customs Authority
ESAAMLG	Eastern and Southern Africa Anti Money Laundering Group
FCY	Foreign Currency
FATF	Financial Action Task Force
EFIS	Financial intelligence service (Ethiopia)
FIU	Financial Intelligent Unit
FSRBs	FATF - Style Regional Bodies
FT	Financing of Terrorists
IFF	Illicit Financial Flow
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INSA	Information Network Security Agency
KYC	Know Your Customer
MENAFATF	Middle East and North Africa Financial Action Task Force
ML	Money Laundry
MoFED	Ministry of Finance and Economic Development
MoJ	Ministry of Justice
MoU	Memoranda of Understanding
NBE	National Bank of Ethiopia
PEPs	Politically Exposed Persons
SPSS	Statistical Package for Social Sciences
STR	Suspicious Transaction Report
TBML	Trade Based Money Launder

**LIST OF TABLES**

	<u>Page</u>
Table-1 Money Laundering Vulnerability issues at Dashen Bank SC (VFMML2NO1-9) -----	24
Table-2 Consequences of money laundering for Dashen bank S.C. (PEMLDB1no1-11) -----	27
Table-3 Methods of money laundering classified by respondents in the bank -----	31
Table-4 Dashen Bank S.C.'s Performances on fighting Money Laundering (DBAMLPERFORM1no1-8) -----	32

## LIST OF FIGURE

### Page

Figure-1 Methods that criminals use and Percentage of respondents (VFMML1) -----30

## ABSTRACT

*The Purpose of this study was to investigate Money Laundry and its consequences by taking Dashen Bank S.C. 's performance on anti-money laundering to highlight challenges and potential consequences resulting from Money laundering. Money Laundering has a significant economic and social consequence for countries all over the world. It adversely affects the financial sector at international level as they are major channels for fund transactions. There is a rapid increase of financial crime and illicit funds that are being exchanged after they are laundered mainly through banks and used to finance other illegal activities such as organized crimes. This triggered the researcher to conduct study in the area. A Descriptive survey design with both quantitative and qualitative method was adopted in carrying out this research. Purposive sampling was used during the research. Both primary and secondary data collection tools were utilized in the course of conducting this study, Questionnaire and unstructured interview and documentations were used to collect the relevant data. A sample was chosen for the sake of this assessment by using non-probability sampling technique. The collected data was analyzed using descriptive statistics, which included frequencies, percentages, numbers, tables and chart, through statistical package for social science (SPSS). The finding of the research revealed that there is a need to adhere to ant-money regulation in order to curb down money laundering consequences. Based on the findings of the study, several recommendations were provided that are geared towards challenges and potential consequences of Dashen Bank S.C.'s money laundering policy and procedure implementation.*

**Key Words:** (Anti)Money laundering, vulnerability factors, methods of money laundering, consequences of money laundry

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

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

ML becomes known worldwide during the 1972 Watergate Scandal. As a result of Watergate, Nixon resigned, and number of his aides either resigned or arrested. AL CAPONE (The Mafias Leader) Convicted of Tax evasion and Mayer Lensky (Mafia Accountant) developed the modern Money Laundering Approach. i.e. “Loan to Back” concept. Those two mentioned individuals could be considered as the founders of Money Laundering

Mostly the concept of Money Laundering began to gets nations attentions as a result of Drug trafficking. To combat drug trafficking crime, the FATF came to existence in 1989 by the G7 countries. FATF initial mission (1989) being preventing the use of Banking System and other financial institutions for money laundering, develop international consensus on measures to help identify, trace and seize the proceeds from drug crimes and other criminal activities.

In addition, to Drug trafficking the concept of Money Laundering highly got nations attention after the 9/11 Terrorist Attack to focus in the direction of combating money laundering, being addressed from a combined and international perspective. After the establishment of FATF the 40+9 recommendations; a number of countries around the world issued AML/CFT Laws and regulations (Including Ethiopia); and increased international cooperation and implementation of the FATF Standards. Especially after 9/11 terrorist attack in the USA, the world was forced to know how much illegal money flow is dangerous. After the attack, Financial Action Task Force (FATF) has strongly recommended countries to establish Financial Intelligence Units (FIU) and

accept suspicious reports from financial institutions and Non-Financial Businesses and professions (FATF annual report, 2001/2002).

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

When we see our country's situation with this global threat perspective, there are several reasons that make Ethiopia in general Dashen Bank S.C. in particular vulnerable to money laundering activities. The following are a few among many that contribute for this prevailing epidemic problem: Ethiopia's location in the Horn of Africa creates the vulnerability to money laundering activities as it is surrounded by unstable and porous neighboring countries like Somalia, Southern Sudan and Eretria (Biniam Shiferaw, 2011). Unless and otherwise urgent cooperation brings into deal among these neighboring countries the problem might get out of control and causes for socio-economic and political instability in the region.

Corruption and illicit capital outflow are other reasons that aggravate money laundering. Corruption and money laundering are symbiotic. Payment systems used for money transactions in banks and the parallel banking system like 'Hawalla' are the other most common medium of money laundering activities. Since capturing and monitoring cash transaction is difficult unless supported by the good will of the FIs, money laundering is booming without being detected. This becomes a difficult challenge for law enforcement groups and regulators. The parallel banking activities internationally known as 'Hawallas' encourage money laundering activities as they are able to wire funds to and from other jurisdictions without going through the formal banking system. In order to combat this huge threat, the Ethiopian government has been undertaking major efforts as can be seen below.

## 1.2. Statement of the Problem

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

Money Laundering and illicit financial out flow have symbiotic relations (David Chaikin and J.C. Sharman, 2009). Capital flight is also one of the problems aggravating money laundering and creating a serious development challenges for most African economies and have become increasingly indebted; they experienced large scale capital flight. Ethiopia is not exceptional for this impact. According to Transparency International Corruption Perception Index report Ethiopia ranked 110th out of 175 countries and it is among the top 20 African countries with the amount of 17,032 billion US dollar within 39 years (Transparency International, 2014). Global Financial Integrity recent report from 2004-2013 also indicates the amount of capital flight has reached as 25,835 billion US dollar. In conclusion, currently the impact of capital flight for Ethiopia economy is becoming very severe (Global Financial Integrity report, 2004-2013).

Ethiopia's location within the Horn of Africa- where there are transnational criminal organizations, terrorists and other serious criminals- makes it vulnerable to money laundering related activities. Ethiopia is also vulnerable because of strategic AML/CFT deficiencies of Eastern Africa countries, even though Ethiopia has addressed its own deficiencies (FATF public statement, 2014). Even though there are no many studies in Ethiopia on money laundering there are three conducted researches. Biniam Shiferaw (2011) tried to examine the compatibility of the law on money laundering with internationally accepted principles and its competency in solving the current problem of money laundering in general and in the financial sectors of Ethiopia. He examined the international principles in detail vis-à-vis the Ethiopian law on money laundering.

Another research conducted on money laundering is by Ayele Yitayew (2014), studied AML/CTF compliance practices in Ethiopia Commercial Banks vis-a- vis opportunities and challenges. His study focused on examining and measuring AML/CTF system implementation and the practices of Ethiopian Commercial Banks. In addition, Tesfay G/Egziabher (2015) studied on Assessment of Techniques and Methods of Trade Based Money Laundering: the case

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

This study focused on filling the knowledge gap that were not been addressed by earlier researchers like status of crimes on money laundering, vulnerability aspects (level of awareness on stake holder agencies and etc.). The assessment considered the performance level of Dashen Bank S.C.'s stakeholders on anti-money laundering activity, various methods that criminals use to launder their illicit fund and challenges of money laundering and the bank's attitude and enactment on anti-money laundering in general would be addressed. Furthermore, potential consequences of money laundering would be highlighted. The study concentrated on assessing the effects of money laundering threats and its counter measures taken by the government. Thus, the central questions of the research are:

### **1.3. Research Questions**

This research paper attempted to respond to the following research question.

- What are the issues that contribute to money laundering Dashen Bank S.C.?
- What are the methods of money laundering in Dashen Bank S.C.?
- What consequences money laundering would pose?
- What are the challenges faced by the Bank to fight money laundering?



## **1.4. Objective of the Study**

### **1.4.1. General Objective**

The main objective of this study was to investigate money laundering and its consequences on the case of Dashen Bank S.C.'s.

### **1.4.2. Specific objectives**

The specific objectives of the research were:

- To assess the major issues that contributes money laundering in Dashen Bank S.C.
- To point out the challenges faces for the Bank to fight money laundering.
- To identify the methods of money laundering detected in Dashen Bank S.C.
- To point out major effects of money laundering on Dashen Bank S.C.

## **1.5. Significance of the Study**

The result of this study would largely benefit to create public awareness on the issue and consequences of money laundering. The major significance of this study is to call an attention of Board members, stake holders and employees of the bank on money laundering issues by investigating the extent of money laundering in Dashen Bank S.C.'s. Furthermore, the study would also enable NBE and other concerned bodies especially EFIS to take policy measures on this devastating crime. The study would also have a great contribution to further enhance and fill knowledge gaps in the area.

## **1.6. Scope of the Study**

The scope of this study would cover assessing of consequences of money laundering at Dashen S.C. The researcher narrowed the scope to this bank only because it is relatively large compared to other banks in Ethiopia based on branch networks and also due to time and budget constraints that impeded contacting all financial institutions in the industry. In addition, the research specifically looked at effects of ML, AML measures in place, challenges and the extent to which the existing AML regulations are effectively implemented by this bank.

## **1.7. Limitation of the study**

In undertaking the study, there would be some limitations against achieving its objectives effectively. Firstly, the research by its nature needs sufficient time and difficult to manage with the time allocated. Secondary data was not easily available since few research made on this topic. There was lack of cooperation by some respondents and management bodies to get a firsthand information through primary sources like interview and questionnaires during the study.

## **1.8. Organization of the research document**

This study is organized into five chapters. Chapter one presents introductions of the study. The literature review part of the study is presented in chapter two. The literature review includes the theoretical review in its first section which is followed by the review of previous studies. Chapter three presented the research design and methodology. Result and discussion of the study are presented in chapter four. Finally, the last part of the paper discussed conclusions and recommendations part.

## CHAPTER TWO

### 2. LITERATURE REVIEW

#### 2.1. Introduction

The main objective of this study was to investigate money laundering and its consequences by taking Dashen Bank S.C. as a case company to understand and assess the vulnerability issues to ML, the different LM ways and challenges bank's face in AML. This chapter highlights the literature and previous studies on the issue.

#### 2.2. Theoretical perspectives of money Laundering

Money laundering is 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 proceeds (Anteneh Mekonnen, 2014). International police cooperation defines money laundering as: "any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources" ([www.interpol.int](http://www.interpol.int)). On the other hand, define money laundering as a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity.

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

Generally, money launderers follow three basic stages of money laundering – placement, layering and integration. The placement stage is the initial stage of money laundering that criminally obtained money usually enters the financial system. Under this stage, launderers put the money in several forms so that they are being more liquid. The layering stage is the second stage involves distancing of the dirty money from their source to make using the funds more convenient and reduce the possibility of detection. The final stage is integration and under this

stage the laundered money is directly injected to the economy through various forms- for example through "investment" (OECD, 2009).

There are also three components of money laundering in a specific country. The first one is the proceeds of crime from a specific country is laundered within its own territorial boundary. The second component is that the proceeds of crime from one country are laundered elsewhere outside world. Finally, the money from outside world may be laundered in the other country. Therefore, in addition to internal money laundering, there are also incoming and outgoing money laundering with in a specific country (John Walker, 1995). Money laundering is international phenomenon and its networks can be quite long. The illicit money generated from one country could be laundered in another country by transferring through banks and other mechanisms. Usually, if a country is haven for criminals, then there is high incoming money laundering. Therefore, international cooperation is highly important to tackle money laundering.

### **2.3. Definition of Money Laundering**

Money laundering is the illegal process of making large amounts of money generated by a criminal activity, such as drug trafficking or terrorist funding, appear to have come from a legitimate source. Money which is not associated with criminal activity can be freely disposed without any fear of incrimination as being part to any criminal misdeeds. Whereas, the sudden acquisition of a large amount of money without explanation invites someone's suspicion that its source is some illegitimate activity (Rachel Manney, 2002). Here is the word "Money laundering" that evokes images of sophisticated multinational financial operations that transforms criminal proceeds of dirty money into clean money (Michael Levi, 2002).

Money laundering has been defined in different ways. It is the processes of making illegally earned money appear to be "clean," often through complex bank transfers and transactions. Though most countries subscribe to the definition given under the Vienna Convention and the Palermo Convention, the Financial Action Task Force (FATF), a recognized international standard setter about anti-money laundering operation defines it in a similar fashion as: The conversion or transfer of property, knowing that such property is derived from serious crime, for the purpose of concealing or disguising the illicit origin of the property or of assisting any person

who is involved in committing such an offence or offences to evade the legal consequences of such action; the concealment or disguise of the true nature, source, location, disposition, movement, rights with respect to, or ownership of property, knowing at the time of receipt that such property was derived from a criminal offence or from an act of participation in such an offence (Rudich, Denisse V., 2005).

Money laundering could be defined in various ways but the common element amongst them is 'the transfer of the illegal assets into the legal economic system'. Generally speaking, money laundering is the term used to describe the process that disguises the illegal sources of money and frees the funds for use in the legitimate economy. The origin of the term is controversial, some points to the literal meaning of the expression laundering or washing money free from its criminal association whilst others point to the use of laundries or rather Laundromats and other cash business by U.S. organized criminals trying to integrate their proceeds of crime in to the legitimate economy during the prohibited era (Bourne, 2002). Whereas, others in a similar fashion argue that the term is derived from the fact that certain organized crime rings in the 1920's commingled the proceeds of their illicit operations in a practically untraceable manner and thereby making the funds appear to be derived from legitimate activities (Todd Doyle, 2002). Despite the fact that the term 'money laundering' may have been originated in the twentieth century, the practice of disguising ill-gotten gains pre-dates recent history and indeed traces its roots back to the dawn of banking itself. However, money laundering became an issue both at national and international level with the rise of world-wide drug trafficking in the 1980's and the money laundering operation associated with such activity and on those involved in it attempting both to stop criminals profiting from their crimes and to trace back those proceeds in order to reach the kingpin (Ellinger E.P et al.,2006).

National legislations in many parts of the world as well as international instruments began misusing the term money laundering with particular reference to drug trafficking, which latter extended to other predicate offences. Now a day, money laundering has received a great deal of attention all over the world for three fold reasons (Scott Sultzer, 1996). First, it is a major worldwide problem and countries want to deter money launderers from using their financial system for illicit purposes. Second, it presents the most effective target for law enforcement officials to prosecute and punish those involved in money laundering activities as leaders of

organized crimes and lastly money laundering is a simple means to tackle and intercept predicate crimes than the underlying criminal activity itself and it makes investigation easier for government agents to produce measurable and visible results.

Money laundering is regarded as the world's largest industry after international oil trade and foreign exchange (Angela Veng Mei Leong, 2007). IMF estimated global volume of money laundering between two and five percent of world's GDP. Based on the then statistics, these percentages would indicate that money laundering ranged between USD 600 billion and USD 1.5 trillion, which reveals how much money laundering has potentially devastating economic, security, and social consequences. Money laundering has clearly become endemic to country's social, economic and political frameworks; it ultimately affects and often subverts not only banking and other financial institutions, but also both multinational corporations and small businesses, legislatives and law enforcement officials, lawyers and judges, politicians and high ranking officials as well as newspapers and televisions (Lisa A. Barbut, 1995).

In spite the endeavors made both at national and international level, many laundering continues to be the problem of the globe because of its lucrative nature while penalties for money laundering are insignificant in light of the profits generated from the activity. Of course the historic success of money laundering can be attributed not only to its profitability and the relatively light penalty to which the perpetrators may be subjected, but also to other factors such as the sheer increase of financial transactions, interdependence of global economy, the sophistication and flexibility of money laundering operations as well as the money launderers' ability to exploit advanced technologies associated with modern banking system (Bruce Zagaris and Scott B. MacDonald, 1992). However, the fight against money laundering is increasing alarmingly at international as well as domestic level. Here comes the question why money launderers engage in these activities despite the domestic and international efforts to fight the crime.

Organizations involved in the criminal activity use money as their life blood. Money replenishes inventories, purchases the services of corrupt officials to escape detection and further the interest of their illegal enterprises and pays for an extravagant life style. Further money laundering presupposes the commission of other crimes. Thus a trail of money from an offence to criminals

can become incriminating evidence. So in order to ensure that they are not to be prosecuted because of such money, they usually try to obscure the sources of their ill-gotten money to make them look legitimate (Managing Core Risks in Banking: Guidance Notes on Prevention of Money Laundering, Focus Group on the Prevention of Money Laundering, Bangladesh Bank, 2003, P.3)

## **2.4. Money Laundering Process**

According to Paul Fagyal (2006), money laundering process most commonly occurs in three key stages: placement, layering and integration. And each individual money laundering stage can be extremely complex due to the criminal activity involved. Experts in the field; however, criticize dividing the process of money laundering in to three distinct stages as it is unclear where one stage begins and the other ends. Nevertheless, both sides and the law enforcement community continue to refer to the different stages while discussing the issue.

### **2.4.1. Placement**

This stage involves introducing the money in to the financial system in a way that it can be maneuvered through a series of complex transactions so as to remove the cash from its original location to avoid detection by the authorities (Vijay Kumar Singh, 2009). Money launderers in the initial stage are exposed to law enforcement detection because there exists a direct connection between the profits and the crime and it also involves the physical disposal of the cash (Alison S. Bachus, 2004). However, the placement of funds in to the financial system has become increasingly difficult to discover due to the large number of ways to accomplish it (Modelyn J. Daley, 2000).

In order to avoid deposits of large sum of money that may trigger suspicion and cause detection, they just use a process called surfing (Sarah Jane Hughes, 1992). In this process a number of individuals make small deposits in a number of different depository institutions so as to avoid detection. Therefore, although financial institutions maintain anti money laundering compliance programs, the developing process of surfing demonstrates the difficulty of eradicating money laundering. Purchasing expensive property and reselling it, creating legitimate or semi legitimate

business that typically deals in cash like hotels and bars are among other mechanisms used in the placement stage in order to obscure the source of illegitimate money (Paul Fagyal, 2006).

### **2.4.2. Layering**

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

The technological advancement of Electronic Fund Transfer (EFT) has also contributed for this stage of the laundering process because money movement is a click away not only at national level but at international level too as a result of electronic fund transfer. However, there are a number of characteristics that might indicate money laundering activities. Seemingly ludicrous financial transactions, large number of sales and purchases subject to commission, numerous accounts, ostensibly unconnected being consolidated in to a smaller amount of accounts and lack of concern over loses on investment, bank charges or professional advisor charges are among the traits to be mentioned (Paul Fagyal, 2006).

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



detected independently of criminal investigation and hence needs agreement with other countries to have success in stopping money laundering at the layering stage.

### **2.4.3. Integration**

In this stage the ‘dirty’ money is now absorbed into the economy. The layering stage of transaction involves the transmission of money to accounts so-called bank secrecy havens or it involves a number of transactions and thus, it becomes difficult to figure out the identity of the account holder and the money’s origin (Mariano-Florentino Cuellar, 2003). This makes it possible for the criminal to engage in the final stage.

The final stage of money laundering is the integration of the funds in to the legal business environment. At this time, the money has been divided up and intermingled with the legitimate economy and moved between a number of bank accounts and nations making it almost impossible to trace (Kathleen A. Lacey and Barbra Crutchfield George, 2003). The methods adopted to successfully integrate funds from a criminal enterprise would very often be similar to practices adopted by legitimate business and this would make it more difficult to isolate a modus operandi that is unique to money laundering (Schroeder, W.R, 2001).

## **2.5. International Anti Money-Laundering clean-up organizations**

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

### **2.5.1. The United Nations**

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

effect of law in a member country once that country has signed the convention. Thus, the UN treaties and conventions will be a major force in harmonizing national laws and enforcement actions around the world.

The United Nations Vienna Convention (1988) and the Palermo Convention (2000) are among the major conventions and benchmarks in the fight against money laundering. There were other international efforts like measures against the transfer and safekeeping of funds of criminal origin adopted by the Committee of the Council of Europe in June 27, 1980 and in Dec. 1988. The Basel Committee issued a statement of principles i.e. Statement on use of Banking for the purpose of fighting money laundering.

### **2.5.2. Financial Action Task Force (FATF)**

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

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

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

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

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

### **2.5.3. The Egmont Group**

The Egmont Group is a united body of 158 Financial Intelligence Units (FIUs). The Egmont Group provides a platform for the secure exchange of expertise and financial intelligence to combat money laundering and terrorist financing (ML/TF). This is especially relevant as FIUs are uniquely positioned to cooperate and support national and international efforts to counter terrorist financing and are the trusted gateway for sharing financial information domestically and internationally in accordance with global Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) standards.

The Egmont Group continues to support the efforts of its international partners and other stakeholders to give effect to the resolutions and statements by the United Nations Security Council, the G20 Finance Ministers, and the Financial Action Task Force (FATF). The Egmont Group is able to add value to the work of member FIUs by improving the understanding of ML/TF risks amongst its stakeholders. The organization is able to draw upon operational experience to inform policy considerations; including AML/CFT implementation and AML/CFT reforms. The Egmont Group is the operational arm of the international AML/CFT apparatus.

The Egmont Group recognizes sharing of financial intelligence is of paramount importance and has become the cornerstone of the international efforts to counter ML/TF. Financial Intelligence Units (FIUs) around the world are obliged by international AML/CFT standards to exchange information and engage in international cooperation. As an international financial intelligence forum the Egmont Group both facilitates and prompts this amongst its member FIUs. The Egmont Group is a non-political, international forum of operational Financial Intelligence Units (FIUs) which exchange information to follow the suspected proceeds of crime when funds are located in different jurisdictions. This group is a non-political, international forum of operational Financial Intelligence Units (FIUs) which exchange information to follow the suspected proceeds of crime when funds are located in different jurisdictions.

#### **2.5.4. Regional Anti Money Laundering Initiatives**

There are about eight Regional Groups following the approval of the Egmont Group of Financial Intelligence Units. These FATF-Style Regional Bodies (FSRBs) have recently been granted observer status with the Egmont Group. Three regional bodies are found in Africa. East and South Africa Region (ESAAMLG), Middle East and North Africa Region (MENAFATF) and West and Central Africa Region GABAC and GIABA.

#### **2.5.5. FATF style regional Bodies (FSRBs)**

Those groups are organized according to geographical regions. These groups are very important in the promotion and implementation of anti-money laundering laws and combating the financing of terrorism in their respective regions. In the same token, their primary objective is to facilitate the adoption of universal standards as set out by the FATF and how the 40+9 recommendation can be effectively implemented in their regions. FSRBs are voluntary and cooperative organizations that administer mutual evaluation of their members so that they can identify their weaknesses and take remedies accordingly. Further, FSRBs provide information to their members about trends, techniques and other development in the money laundering arena in their typology reports with special emphasis to their respective regions. Financing of Terrorism described the roles that banks should play in fighting terrorism financing. Assisting competent authorities through prevention, detection and information sharing, adopting KYC policies and procedures and applying extra due diligence when they see suspicious or asymmetrical activities are the principle provided in the statement.

#### **2.5.6. Eastern and Southern Africa Anti-Money laundering Group (ESAAMLG)**

Representatives of 13 African countries attended the first such conference in Cape Town, South Africa on 1-3 October, 1996. And representatives of several members of the Financial Action Task Force (FATF) was also present. The Conference agreed on the urgent need to enact anti-money laundering legislation based on the 40 FATF Recommendations and the Commonwealth model laws. It was also agreed that the national strategies for combating money launderings

should rely on a multi-disciplinary approach involving officials from the legal, financial and law enforcement ministries and agencies.

The Conference strongly recommended the formation of a regional South and Eastern African Financial Action Task Force consisting of representatives from financial, legal and law enforcement authorities to develop a regional strategy to combat money laundering (Journal of African Law, (1997), The Task Force would monitor the implementation of national anti-money laundering measures based on the FATF Recommendations; liaise with other regional and international organizations concerned with combating money laundering; discuss and devise solutions to common problems and consider the desirability of the harmonization of anti-money laundering measures. In addition, it was agreed that member states should examine and implement, where appropriate, extradition and mutual legal assistance treaties with a view to enhancing international law enforcement.

## **2.6. Legal Framework, Operational Developments and Internal and External Cooperation**

The idea of money laundering in Ethiopia became a circumstance after the promulgation of the new proclamation No. 657/2009 on the issue and the initiation of some cases in this respect.

Ethiopia has made several progresses so as to reduce a crime of money laundering. The proclamation also declares the applicability of proclamation No 434/2005 to freezing, seizure and confiscation of assets in connection with combating money laundering. The criminal code of the Federal Democratic Republic of Ethiopia also declared about money laundering under article 684. According to this article, whoever launders money or property, derived from corruption, drug trafficking, illegal arms dealings or crimes indicated under some other articles, or any similar serious crime, by disguising its source through investment, transfer or remission is punishable with rigorous imprisonment from five years to fifteen years, and fine not exceeding one hundred thousand Birr.

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

Regulation No 171/2009 brought the establishment of Ethiopian Financial Intelligence Center (FIC). FIS has been undertaking to hire employees or experts, and has also delivered capacity building programs not only for its staff but also for the employees of stakeholders like banks,

ERCA, MoJ, NGOs, insurances, NBE, Ministry of Trade, MoFED, Federal Ethics and Anti-Corruption Commission, Association of Banks and others. Cooperation and coordination has vital importance to combat not only money laundering but also other forms of crimes. Accordingly, Memoranda of Understanding (MoU) or other legal agreements with government agencies as well as FIUs in other countries has been signed to facilitate information sharing or for requiring technical assistance related to Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) efforts. Internally, FIS has started cooperation with stakeholders by signing MoU under article 21(2) of proclamation No 657/2009 to declare the powers and duties of FIS; it has to provide guidance and direction as needed to other governmental and non-governmental institutions with anti-money laundering counter terrorist financing related responsibilities. Ethiopian acknowledged also by FATF in June 2014 after Ethiopia passed regulation no. 306/2014 detailing procedures for freezing terrorist assets in order to address one of the key remaining FATF-identified deficiencies in the country's AML/ CFT regime. Furthermore,

Ethiopia works to be a member of the Egmont Group of FIUs which is very important for international cooperation in the fight against money laundering and financing of terrorism.

## **2.7. Empirical studies**

In this part, the researcher analyzed and discussed different findings or studies conducted before regarding the study topic. Even if there are no as such significant empirical researches made still however, three banks in Lagos State (South Western Nigeria) were used for the study on anti-money laundering policy and its effects on bank performance in Nigeria.

A study by Abiol was conducted using a descriptive research methodology on three banks in Lagos State (South Western Nigeria). The correlation result indicates the existence of a strong positive relationship between banks performance and adoption of sound money laundering policy. The coefficient of determination also shows a value of 0.775, which implies that anti-money laundering policy actually explain and account for about 77.5% of the nature of banks performance in the economy. This result is due to the fact that banks do not need to serve as a channel for illicit monetary activities before they can post a meaningful performance in the industry. Hence, money laundering has negative consequences on the economy which include

loss of revenue to the government, worsens criminal rate in the society, and threatens the political stability and internal security of a nation (Idowu Abiola, 2011). This empirical research has good indications for this research especially on the Ethiopian context regarding the commercial banks performances in our country.

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

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

Opportunities were obtained following the success of banks responsibilities like reputation, safety and soundness, risk minimization, preventing launderers from bank services, increasing of profit and number of depositors at the bank. However, Ayele had identified some challenges within Commercial Banks such as bank AML/CTF practices among cashed- society, difficulty of PEPs and CDD without national identification card, banking technology infrastructure, AML/CTF costs, and lack of awareness in media about AML/CTF.

Ayele's methodology is similar to this research methodology though he has used an exploratory research method besides to descriptive one. The focus was mainly on Commercial banks performance on AML/CTF activities and this study tried to cover the other aspects which relate to the ways by which money is laundered and the different challenges faced by commercial banks when combating money laundry.

## **CHAPTER THREE**

### **3. RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Introduction**

The methodology focuses on research design, target population, sampling technique, sample size, data collection instrument, method of data collection and data analysis and presentation tools to report the study results.

#### **3.2. Research Design**

The research design basically outlines the activities that are necessary to execute the research. According to Cooper (2006), the research design provides an operational frame within which facts will be placed, processed through analyzing procedures and valuable research output is produced.

The study adopted a descriptive survey design which is commonly used to collect detailed and factual information that describes an existing phenomenon (Ezeani 1998). In the Descriptive study both quantitative and qualitative method are used to analyze the collected data to analyze the primary and secondary data collected from departments and work units that are useful for understanding the existing money laundering situation and its consequences being studied. This study utilized cross-sectional survey because it helped to collect the relevant data at a single point in time and it is useful in such type of research which is limited in time frame and finance to conduct longitudinal study.

#### **3.3. Research Method**

This study utilized both quantitative and qualitative research to arrive at the conclusions and for testing the research objectives. Quantitative approach of doing research is employed because, quantitative research answers questions through a controlled deductive process allowing for the collection of numerical data, the prediction, the measurement of variables, and the use of statistical procedures to analyze and develop inferences from that data. Furthermore, qualitative research method was applied to analyze the primary data which are obtained through questionnaire and interview.



### **3.4. Data Collection Procedure (Sampling Technique)**

The target population of the study is the risk and compliance management professional staffs of Dashen Bank S.C. Demonstrable experience, better education and knowledge of the subject matter in the area of money laundering were mandatory criteria of selection which was expected from respondents. Most of the respondents are well qualified personals from risk & compliance department and control department staffs of Dashen Bank SC, who have longer experience and understand the concept of Money Laundering and its consequence on the bank in particular and the country in general. The researcher used a mixture of purposive sampling and then a census of the sample chosen purposefully, to collect the primary data from the total population of about 69 qualified and well trained personnel of enterprise risk & compliance management department and control department staffs of Dashen Bank SC.

### **3.5. Data Collection Techniques**

Considering lack of available data in Ethiopia in general and Dashen Bank S.C in particular regarding money laundering, empirical investigation is very important. Because of this reason, the appropriate research strategy for this study was reinforcing “triangulation” method. Furthermore, the Primary and Secondary data collection techniques were used.

The Primary data collection method was personal observation, questionnaire and un-structured interview. Those data collection techniques were developed through readings of materials such as FATF recommendations, Basel Committee core principles and AML/CFT training opportunities the researcher got during his career. Therefore, enterprise risk ad compliance Director and senior experts who are having medium and high knowledge about the concept of money laundering and its consequences were chosen and in addition, the questionnaire obliges the respondent to fill if they have awareness about money laundering and its Consequences. In this study secondary data were gathered by using various documents like journals and books which are crucial to the theme of the study for the purpose of gathering information.

### **3.6. Method of data Analysis**

In analyzing the collected data, the researcher used SPSS version 25 software package. And the methods of data presentation are tabulation and graph. Frequencies and percentages calculations are the data analysis instruments used to analyze the precise and simplified result of the study.

### **3.7. Reliability and Validity test**

In order to ascertain reliability of the study, Questionnaires were distributed to respondents and a pilot study was conducted. The pilot study was conducted in order to identify questions that might be ambiguous to respondents and any non-verbal behavior of the participants that may possibly create discomfort on the content or wording. This allowed the researcher to make modification on the data collection instrument before the study proceeded primarily.

## **CHAPTER FOUR**

### **4. DATA ANALYSIS AND INTERPRETATION**

#### **4.1. Introduction**

This chapter describes the analysis and interpretation of the collected data about money laundering and its consequences taking Dashen Bank S.C. as a case company. This chapter focuses on the results and discussion of the analysis.

There are about five categories of discussions. The vulnerability Factor has a checklist of 9 (nine) issues that contribute to make Dashen bank SC vulnerable to money laundering. Besides, peculiar features in Dashen bank SC that may contribute to the problem like illegal hawalla and black market foreign exchange are addressed. Other parts of the discussions are such as status of crimes on money laundering like corruption, tax evasion and human trafficking are among variable issues. Methods of money laundering and Dashen bank SC performance on anti-money laundering have 8 (eight) variable factors for each. Challenges to fight money laundering in Dashen bank SC like lack of top managements will, weak bureaucratic institutional system, and the generally slow pace of reform and poor performance of institutions are included. Finally, consequence of Money Laundering which has also different socioeconomic crisis would be discussed in detail.

#### **4.2. Results and Discussions**

##### **4.2.1. Aspects contributing to Money Laundering**

###### **4.2.1.1 Vulnerability Issues**

The countries' socio economic and legal framework may be shelter or stiff for money laundering and there is no precise measure of vulnerability for any jurisdiction. A checklist of 9 issues that contribute to make Dashen Bank SC vulnerable to money laundering was provided and the respondents were expected to scale as very low, low, medium, high and very high.

Accordingly, lack of or inadequate KYC requirements, lack of effective monitoring of cross border transactions, lack of awareness and failure to criminalize money laundering are high among the listed vulnerability issues. On the contrary, the vulnerability of the bank due to rigid

bank secrecy (that prohibit reporting of customers' information to the competent authority) and failure to keep customers' information for reasonable period are relatively low. For the question to identify some other vulnerability issues, the respondents supplemented as conflict of interest between compliance department and top management of banks.

**Table-1 Money Laundering Vulnerability Issues at Dashen Bank SC.**

	Very Low		Low		Medium		High		Very High		No information	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
1. Rigid bank secrecy rules	6	8.3	38	52.8	16	22.2	4	5.6	5	6.9	0	0
2. Lack of or inadequate KYC requirements	0	0	9	12.5	5	6.9	35	48.6	20	27.8	0	0
3. Lack of effective monitoring of cross border transactions	0	0	6	8.3	2	2.8	40	55.6	21	29.2	0	0
4. No requirements for reporting of large / suspicious transactions	20	27.8	30	41.7	7	9.7	8	11.1	4	5.6	0	0
5. Failure to keep customers information for reasonable period	14	19.4	27	37.5	5	6.9	16	22.2	7	9.7	0	0
6. Lack of external cooperation	5	6.9	20	27.8	4	5.6	29	40.3	11	15.3	0	0
7. No or lack of external cooperation	1	1.4	19	26.4	32	44.4	15	20.8	2	2.8	0	0
8. Failure to criminalize money laundering	3	4.2	10	13.9	18	25.0	33	45.8	5	6.9	0	0
9. Lack of awareness	0	0	5	6.9	47	65.3	17	23.5	0	0	0	0

Source: gathered data

### **Rigged Bank secrecy rules**

According to the above table, about 38 (52.8%) of respondents reply as low, 16 (22.2%) medium, 6 (8.3%) Very low, 4 (5.6), high and 5 (6.9) very high. Three respondents are invalid from the total 69 respondents.

Therefore, rigid bank secrecy rules could not prohibit for suspicious transaction reporting and respondents disagree on its inhibition.

### **Lack of effective KYC requirements**

As we have seen in the above Table 1 above with this respect, it is relatively high with 35 (48.6%) of respondents to comply with inadequate KYC requirements and very high 20 (27.8%) respondents. About 9 (12.5%) and 5 (6.9%) score show as low and medium with a lesser percentage of its inadequacy.

Therefore, inadequate KYC requirement could be considered as vulnerability factor with a mean of 3.96 (see *Appendix-VI*) above medium level and information about customers is minimal and that aggravates the risk of money laundering.

### **Lack of effective monitoring of cross border transactions**

As it is indicated on the above table, lack of effective monitoring of cross border currency transaction is a threat of money laundering. About 40 (55.6%) of respondents replied as high and 21 (29.2%) very high, whereas only 6 (8.3%) and 2 (2.8%) respondents agree on the failure of effective cross border transaction control. Finally, about 3 (2.9) respondents is invalid from the total 69 respondents.

The finding of the result shows that lack of effective monitoring of cross border transactions could be considered as a threatening factor for money laundry in the bank.

### **✚ Reporting requirement for large cash transaction**

Reporting requirement for large cash transaction is 30 (41.7%) and 20 (27.8%) responded as low and very low respectively. But about 7(9.7%), 8(11.1%) and 4(5.6%) respondents reply as medium, high and very high respectively. Hence the level of requirement falls on the low status.

### **✚ Failure of keeping customer's information**

As indicated in the Table 1 above Failure of keeping customer's information is low with 27 (37.5%) and very low as 14 (19.4%) of Respondents. On the contrary, 16 (22.2%) of respondents replied as high and 7 (9.7%) as very high. Hence, keeping of customer's information is good since the majority of very low and low cumulative figure indicates above 58.2% as not a threat.

### **✚ Lack of external cooperation**

In this regard, among institutions to cooperate and fight money laundering is medium with 4 (5.6%), high with 29 (40.3) and very high with 11 (15.3%) with cumulative of 61.3% though about Cumulative number of very low and low indicates as 38.8 % of less threat. This indicates that the level of cooperation among institutions is very low and it is a threat for prevailing of money laundering.

### **✚ Failure to criminalize money laundering**

Failure to criminalize money laundering is high with a high percentage score of 33(45.8%) and 5(6.9 %) as very high and cumulative figure of 52.7%. Whereas the cumulative figure of very low, low and medium indicates as 47.3%. Hence it is considered as a vulnerability factor.

### **✚ Lack of awareness**

Lack of awareness Level is medium with 47(65.3%) and high with 17(23.5%) with a cumulative percentage of 88.8 % and with a mean of 3.17 (*Appendix-VI*). This result indicates the presence of low awareness as a great threat for money laundering.

**Table-2 Consequences of money laundering on Dashen bank S.C.**

No.	Crimes	Very low		low		medium		high		Very high		No information	
		frequency	%	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
1.	Loss of reputation/image	0	0	0	0	17	23.6	40	55.6	12	16.7	0	
2.	financial loss	0	0	4	5.6	14	19.4	34	47.2	17	23.6	0	
3.	Regulatory fine	4	5.6	10	13.9	27	37.5	21	29.2	7	9.7	0	
4.	Loss of correspondent bank relationship	0	0	6	8.3	15	20.8	41	56.9	7	10.1	0	
5.	Loss of Personal reputation	10	13.9	27	37.5	14	19.4	14	19.4	4	5.6	0	
6.	Country wide risk	12	16.7	13	18.1	31	43.1	11	15.3	2	2.8	0	
7.	Social unrest/political instability to the country	0	0	0	0	32	44.4	27	37.5	10	13.9	0	0
8.	Leads to terrorist financing	0	0	0	0	22	30.6	31	43.1	16	22.2	0	0
9.	Result for un equal financial market opportunity	0	0	0	0	22	30.6	32	44.4	15	20.8	0	0
10.	Facilitate low economic development	4	5.6	0	0	24	33.3	28	38.9	13	18.1	0	0
11.	Using money for illegal purpose	2	2.8	5	6.9	24	33.3	35	48.8	3	4.2	0	0

Source: gathered data

➤ **Loss of reputation/image**

As indicated in the Table 2 above loss of reputation/image is high with 40 (55.6%), very high 12 (16.7%) and medium with 17 (23.6%). The cumulative medium, high and very high percentage of Loss of reputation as effects of money laundering is 95.9 %. Therefore, it could be considered as a big consequence of money laundering though only about 4.1 % respondents replied as not residual effects for Dashen Bank S.C. The cumulative medium and high percentage of Loss of reputation as effects of money laundering is 79.2%.

➤ **Financial loss**

Financial loss is also a consequence of money laundering for the bank. The above Table 2 indicated that 17(23.6%) of respondents as very high and 34 (47.2%) high, with a cumulative percentage of 70.8%. Only 4 (5.6%) low and 14 (19.4 %) medium result.

➤ **Regulatory fine**

Regulatory fine is also another effect which adversely affects the bank due to money laundering. About 27(39.1%) of respondents score medium and 21 (30.4%) as high and very high as 7 (10.1%) though only 4(5.8%) respond as very low and 10 (14.5%) as low. Therefore, Regulatory fine has a significant effect of money laundering.

➤ **Loss of correspondent bank relationship**

According to the respondents in Table 2 Loss of correspondent bank relationship as an effect of money laundering is high. 41(56.9%) respondents replied as high, 15 (20.8%) medium and 7(10.1%) as very high with the exception of 6 (8.3%) as a low response

➤ **Loss of Personal reputation** is also another effect, even if respondents gave their comment with 27(37.5%) as low level of Loss of Personal reputation and a lesser threat than bank wise reputation which is a prone higher effect than country wide risk in the bank concerning the cases of money laundering.

➤ Other consequences of money laundering such as; Social unrest/political instability to the country, Terrorist Financing, Result for unequal financial market opportunity, Facilitate low economic development, Using money for illegal purpose indicate as low with a percentage of 22 (31.9%), 31(44.9%), 28 (40.6%), 31(45%) and 35(50.7%) respectively except Facilitating the low economic development, with 38 (55.1%) medium level of consequences of money laundering at Dashen Bank SC



### **4.3. Methods of Money Laundering**

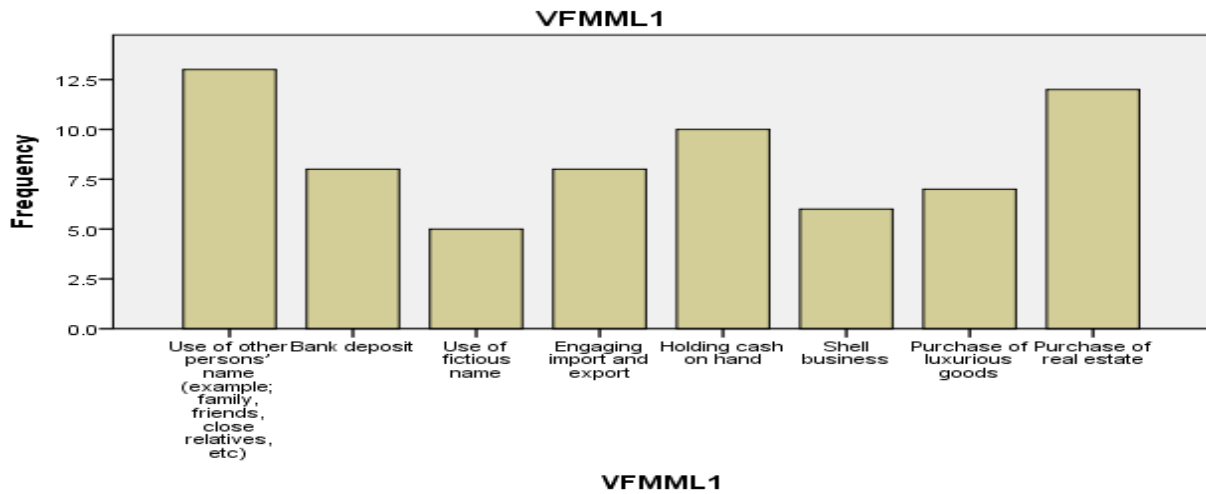
The process of laundering illicit money would be concluded when it is integrated in to the legitimate economy through different methods and techniques. Depending on the existing situation and socio economic structure, there may be different methods in different countries. The methods that launderers use in Ethiopia are an important issue to tackle the problem.

Therefore, 69 respondents from deferent department of the banks were requested to identify the methods of ML in Dashen Bank SC (most probably the methods that they face in their day to day activities). The responses are summarized in figure 1.

Use of other persons' name is one of the successful methods of money laundering. 18.1 percent of respondents believed that money launderers are keen to use other persons, you would not quit expect. Usually, other persons are families, friends and close relatives of the criminals. The real beneficial of the legitimate business or bank account are not the owners rather there are criminals behind that legitimacy. Therefore, we can conclude that, use of other persons' name is relatively the most widely used method of money laundering in Dashen Bank SC.

Real estate transactions also cloak illicit sources of funds or serve in the legitimization process. 13.9 percent of respondents believed the prevalence of cash holding method of money laundering. On the other hand, false name method of money laundering is supported by 6.9 percent of respondents. The other methods- purchase of luxurious goods and use of other person's name and Purchase of Real estate are relatively less frequent, according to respondents.

**Figure-1 Methods that criminals use for ML and Percentage of respondents**



Source: gathered data

The first registered money laundering case has taken place in USA when the Mafias wanted to show their illicit money as it is emanated from laundering business. Since then, using shell business is recognized as one of the methods of money laundering. In this case the true objective of the owners is not to make profit, rather to disguise the original source of the fund. Usually money launderers comingle the dirty money with the legitimate one and it is very cumbersome to split. Front business may include restaurants, supermarkets, laundry business and other legitimate businesses. Generally, there is a method of front business money laundering in Ethiopia. Sometimes, the criminals want to disguise time and location of their illicit fund by holding cash on their hand and wait until the opportunity will come to integrate in the legitimate economy. But, it is riskier and hence relatively less preferable than the above methods. With this respect, 15.94 percent of respondents believed the prevalence of cash holding method of money laundering. On the other hand, false name method of money laundering is supported by 7.23 percent of respondents. The other methods- purchase of luxurious goods and use of other person's name and Purchase of Real estate are relatively less frequent, according to respondents.

**Table -3 Methods of money laundering classified by respondent's in the bank**

		use of other person's name	bank deposit	false name	engaging import and export business	holding cash	shell business	purchase of luxurious goods	Purchase of real estate
Dashen Bank SC	Count	13	8	5	8	10	6	7	12
	Percent	18.1	11.1	6.9	11.1	13.9	8.3	9.7	16.7

Source: gathered data

#### **4.4. Dashen Bank SC's Performance on implementation of Anti Money Laundering**

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

**Table-4 Dashen Bank S.C.'s Performances on fighting Money Laundering**

	Very low		low		Satisfactory/ medium		good		Very good	
	frequency	%	frequency	%	frequency	%	frequency	%	frequency	%
1. Reporting Suspicious Transactions	1	1.4	37	51.4	10	13.9	11	15.3	10	13.9
2. Reporting transactions above cash limit	1	1.4	0	0	2	2.8	11	15.3	55	76.4
3. Keeping records of customer for long period	0	0	5	6.9	4	5.6	10	13.9	50	69.4
4. KYC	3	4.2	7	9.7	8	11.1	44	61.1	7	9.7
5. PEPs enhanced CDD	38	52.8	12	16.7	7	9.7	12	16.7	0	0
6. Conducting continuous CDD	6	8.3	10	13.9	26	36.1	26	36.1	1	1.4
7. Assessing bank new products and services in accordance with AML.	7	9.7	7	9.7	24	33.3	21	29.2	10	13.9
8. Providing training for staffs and management members in relation with AML	0	0	0	0	35	48.6	15	20.8	19	26.4

Source: gathered data

### **✚ Reporting of suspicious Transaction**

As indicated in Table 4 above, about 1 (13.9%) of respondents said very good and 11(15.3%) good. The cumulative percentage of respondents as very good and good shows as 29.2%. About 37 (51.4%) said low and 10(13.9%) of respondents said medium the total percentage of very low, low and medium showed as 66.7%. We can observe that the performance of banks to report suspicious transactions are not satisfactory and has a mean of 3.64 (Appendix-V).

### **✚ Reporting Transaction above Cash limit**

Not only suspicious transactions, banks are expected to report large cash transactions more than birr 300,000 or any other equivalent foreign currency. Unlike suspicious transactions report, Dashen bank's is in a better position to report large cash transactions with a mean of 4.72 (Appendix-V). It should not be undermined because the banks may use not reporting large cash transactions as marketing strategy to attract customers and the others may follow. Sometimes, customers are not willing to report their transactions even if they are legitimate. If there are banks not reporting large cash transactions, then customers may switch to those banks. Then it creates unfair competition, and finally other banks may not report their customers' transaction to EFIS. But in aggregate level, the current performance is very good with a total percentage of 76.4% as it is indicated above in table 4.

### **✚ Keeping records of customers for long period**

Dashen banks performance in keeping records of customers, is very good with 50 (69.4%), good 10 (13.9%), medium 4(5.6%) and low with 5(6.9%). This indicates that Dashen banks has a good record keeping history of the -customer's transactions.

### **✚ Know Your Customer (KYC)**

Know Your Customer (KYC) requirement is also an essential requirement of AML efforts. Knowing who is doing business with the bank is not only important to combat money laundering but also to analyze and prevent other risks associated with customers. KYC is also very important to undertake CDD whenever suspicious transactions are identified. According to CDD of Banks Directives No. SBB/46/2010, sound KYC policies and procedures constitute an

essential part of internal control and risk management aspects of banks. With this respect the bank is relatively good with 61.1% of respondents and 9.7% as very good to comply with KYC requirements with a mean of 3.65 (Appendix-V).

### **Politically Exposed Persons (PEPs)**

Politically Exposed Persons (PEPs) are involved in generation of illicit money especially corruption generated money. Politically exposed person means any natural person who is or has been entrusted with prominent public functions in any country or in an international organization as well as a member of such person's family or any person closely associated with him. Though,

EFIS is responsible to identify and distribute PEPs for banks and the procedure how to conduct CDD intensively, PEPs are not identified yet. Out of the total respondents 52.8 % are very low, 16.7% low and 9.7% as medium in relation with enhance CDD for PEPs. As table 4 above depicts, only 16.7 percent of banks are good with a mean of 1.89 (Appendix-V).

### **Conducting continuous CDD**

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

As it is indicated in the above table 4, about 6 (8.3%) respondent replied very low and 10 (13.9) low, with a cumulative percentage of 22.2%. About 26 (36.1) respondents said medium and cumulative percentage of very low, low and medium indicated as 58.3%. About 26 (36%) said good and the total percentage of very low, low, medium, and good show 94.3%. Article 6(7) of proclamation

### **✚ Assessing new bank products and services in accordance with AML**

With this respect Dashen Bank SC is on a medium level with 24(33.3%) and good with 21(29.2%) even if only 10(13.9%) are on a very good position and 7(9.7%) and 7(9.7%) fall on very low and low level results.

No 780/2013 declared that Financial institutions and DNFBs and professions shall identify and assess the risks of money laundering and financing of terrorism that may arise from the development of new products, delivery mechanisms and business practices, or from the use of new or developing technologies for both new and pre-existing products and take appropriate measures to manage and mitigate those risks. Recommendation 8 of FATF emphasized that financial institutions should pay special attention to any money laundering threats that may arise from new or developing technologies and take measures if needed, to prevent their use in money laundering schemes. The aggregate performance of the bank is somehow good having a mean of 3.08 (Appendix-V). Therefore, it is possible and important to comply with Basel committee principle 4 by ensuring that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures (Basel committee, 2003)

### **✚ Providing ongoing training for top managements and employees**

The final requirement is providing ongoing training for managements and employees so as to refresh and make their knowledge and experience up to date and hence to cope up with new developments of money laundering. In addition to the existing staff, new employees should be required to attend induction training as soon as possible after being hired. Under internal prevention programs, Dashen Bank SC is expected to implement ongoing training for board of directors, top managements and employees including training to assist them in recognizing suspicious transactions and activities that may be linked to money laundering. In the questionnaire that enquires the status of the bank concerning provision of training, 35(48.6%), 15 (20.8) and 19(26.4) respondents respectively respond as medium, good and very good respectively with a mean of 3.77 (Appendix-V). Risk and compliance directors and/or compliance division staffs are expected to have high awareness since any measures that the banks undertake is determined by themselves.

#### **4.5. Challenges to Fight Money Laundering in Dashen bank S.C.**

Although Ethiopia as a country wide and Dashen bank S.C. as an entity has made substantial improvements in their legal framework and in financial institution compliance, according to the finding results obtained from the primary data respondents view and secondary data have the following problems.

1. Lack of strong commitment and will of board of directors and top managements in implementing AML/CFT policies and procedure of the bank; which will lead to weak bureaucratic system, slow pace of reform and poor performance of the bank.
2. The slow pace in improving AML related software presents one of the biggest challenges to Compliance management staffs of the bank in creating a more robust analysis process and streamlining record keeping and case management. (ERCMD).
3. The bank is still developing its analytical capacity through continued staff training and the implementation of a comprehensive AML/ CFT software system. (ERCMD).
4. These issues are further compounded by high turnover rates in working-level positions, coupled with the lack of AML/ CFT training in the country's graduate-level academic institutions.
5. The bank still continues to submit STRs that are not refined, presenting logistical challenge for the EFIS, which is struggling to process and analyze thousands of reports of all financial institution each year.
6. Recently the bank shows strong political commitment on enhancing AML/ CFT compliance. The remaining impediments are possibly in part the result of limited resources and institutional capacity.
7. Rising concern about terrorist activity has led to increased attention on terrorism financing cases from law enforcement. Many criminal justice practitioners, however, still struggle to understand the connection between money laundering and predicate offenses, and "follow the money" techniques are not routinely employed in criminal justice investigations.
8. The low prosecution rates likely stem in part from a lack of coordination between public prosecutors and police investigators. Prosecutors have indicated that they feel the information received was not sufficient to bring money laundering cases to trial, while



police have expressed reticence in pursuing crimes that do not result in convictions. These disconnections present a major challenge to the country as it strives to tackle money laundering and terrorism financing within its borders.

#### **4.6. Consequences of Money Laundering**

A lot of secondary sources of literatures which are covered through readings describe that money laundering has a corrosive effect not only on individuals and the society, but also the nation as a whole. Although it is difficult to exactly quantify the negative effect in number, it is clear that money laundering has a deadly effect on socio-political and the country's productivity in various economic sectors. Some of the consequences listed might be subjective from the respondent of the unstructured interview and researcher understanding of their response.

##### **✚ Increased Crime and Corruption**

The redirection of funds from one sector to the other or from one country to the other, without any economic logic, may confuse the policy makers and hence create inefficient economic policy. Furthermore, unpredictable nature of money laundering also increase the volatility of international capital flows. The problem is not only redirection of funds from sound to low quality investment; rather, it creates loss of control of economic policy. If a country in general and Dashen Bank SC in particular is viewed as haven for money laundering, it is likely to attract domestic and foreign criminals and promote corruption. Usually, money launderers bribe bank managers and government officials in order to launder successfully and generate a potential level of fund. On the other hand, if there is high level of corruption, so is crime of money laundering. Therefore, implementing effective and comprehensive anti-money laundering legal framework mitigates not only the crime of money laundering but also other crimes including corruption.

##### **✚ Reduction in Government Revenue**

From the response it is observed that ML makes it difficult for the government to collect revenue from transactions and productions that take place in the underground economy. The government may fail to collect tax revenue from smuggling and contraband which are estimated to be relatively large share of crime that generate illicit fund for money laundering. On the other hand,

tax evasion erodes the government's fiscal stance that may create a problem on the effectiveness of fiscal policy.

#### **Erosion of financial sector**

Usually, money launderers use financial institutions in order to launder successfully without being traced. Globally, financial institutions are susceptible to the crime of money laundering and there is no exception in the case of Ethiopia. From the very beginning, the deposit of ill money is not reliable in a sense that they will withdraw at any time without any economic reason which in turn leads to liquidity problems and hence undermines financial sector stability.

Therefore, it is very disastrous if financial institutions rely on the proceeds of crime. In addition, successful money laundering involves dishonest bank clerk and managers by intentionally not reporting suspicious cases, which means the institution itself becomes corrupt. Thus undermining the integrity of the financial sector.

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

#### **Undermining legitimate private sector and privatization efforts**

Legitimate businesses owned by criminals are subsidized by their dirty money sell their products lower than market price, even lower than production cost. By doing so, their companies can get competitive advantages while legitimate companies fail to compete with these companies. Therefore, the final decision will be to leave the market for the criminals by exiting from the market.

#### **Socio political consequences**

Money laundering pays the criminals by legitimizing their illicit fund. The money obtained from one crime may serve to finance other crimes and hence facilitate and expand the extent of crime

in a country. Therefore, economic power may be transferred from legitimate to illegitimate bodies.

As a result, chaos and disorder will amplify in the country. If one party has illegitimate economic power, there may not be rule of law and the government also fears to take any corrective measures since the system makes the government politically incapable.

#### **Distortion of external sector**

Another method of money laundering is by involving import and export trade. The analysis done from the interview highlighted that the criminals usually provide wrong invoice for import and export value to undertake trade based money laundering. By doing so, they can shade their illicit fund and transfer to the outside world. On the other hand, money launderers import products with the intention to launder funds and engage on the external trade that does not have economic benefit to the mass. In relation with illicit capital inflow, it will worsen the volatility of incoming capital and affects foreign investment.

#### **Nations' reputation risk and negative image**

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

## **CHAPTER FIVE**

### **5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

This chapter summarizes the study findings and results and based on the key findings and results, conclusions are drawn and some recommendations are given accordingly. The main objective of this study was to investigate money laundering and its consequences on the case of Dashen Bank S.C.'s. Therefore; the researcher has summarized the findings, and has given conclusions and recommendation based on the information collected and analyzed.

#### **5.2. Summary of Findings**

On this section the researcher presents the summary of key findings of the study based on the data presentation and analysis.

Money laundering becomes a global phenomenon both in developing and developed world. Especially after 9/11 terrorist attack, the world is being enforced to know how much illegal money flow is dangerous. Money laundering has been defined in different ways and it is common to divide the money laundering process in to three stages as placement, layering and integration. The concept of money laundering in Ethiopia became a phenomenon after the promulgation of the new proclamation No. 657/2009 and Regulation No 171/2009 brought the establishment of Ethiopian Financial Intelligence Service. Internal and International cooperation is established.

The general objective of the study is to investigate the bank's stand and performance on anti-money laundering and to highlight potential consequences of money laundering in Dashen bank SC. The study may be used as a base line for further study and creates public and stakeholder's awareness on the issue and consequences of money laundering that will residue to the reputation of the bank.

This study used a descriptive survey design. The data collection techniques are Primary and Secondary data collection methods. The study focused on different issues that induce money

laundering such as on methods of vulnerability issues emanated from government's performance evaluation, the position of banks to comply with Anti-Money Laundering requirements and other factors like capital flight. Factors that may contribute to make Dashen Bank SC vulnerable to money laundering was provided. Accordingly, lack of effective monitoring of cross border transactions, lack of awareness and failure to criminalize money laundering are high vulnerability issues. Use of other persons' name is one of the successful methods of money laundering. Real estate transactions also hide illicit sources of funds or serve in the legitimization process.

There are different type's issues that contribute to money laundering in Dashen Bank S.C. The most threatening vulnerability issues are low level of awareness about money laundering, lack of effective monitoring of cross-border currency movements and foreign currency outflows from the center to the periphery in the form of black market and used for export in advance payment is another factor for money laundering. As it is assessed in the literature review part of this research, other issues like poor government institutional quality, political risk, corruption, and price distortion aggravates the problem.

When we see the performance of banks, Reporting Suspicious Transaction (STR) is below medium level with a mean of 3.51 and customers use the structuring method (depositing below 300,000 thresholds) in different branches of the bank. On the other hand, banks Cash Transactions Report (CTR) above cash limit is with a mean of 4.72 but Politically Exposed Persons (PEPs) Enhanced CDD by the Bank is at a low level of mean 1.89. Performance of continuous Customer Due Diligence (CDD) by Banks is with a mean of 3.08. Respondents of banks experts risk and compliance directors and/or compliance division staffs are in a high level of awareness but other division staffs show low level of awareness.

Methods that criminals use are classified into 8 points. Among this evaluating points of request, use of other persons' account name is the highest method of money laundering followed by purchase of real estate, cash holding and import-export businesses. Other vulnerability and crime issues for money laundering are also analyzed. Accordingly, rigid bank secrecy rules could not prohibit for suspicious transaction reporting and could not be as a factor for money laundering where as inadequate KYC requirement could be considered as vulnerability issues. In terms of

crimes status for contribution of money laundering, failure to criminalize money laundering, the level of corruption and tax evasion are the major criminal factor. Dashen bank 's performance on AML comparing to other peer banks is medium according to interview response from officers of EFIS.

Challenges to Fight Money laundering in Dashen Bank SC in particular and Ethiopia in general are multidimensional. Major challenges are:

1. Lack of top management motivation, weak interdepartmental bureaucratic system, the generally slow tempo of banks reform, poor performance of the bank on anti-money laundering activity especially corruption and tax evasion, Lack of staff awareness in Dashen Bank SC continue to present challenges.
2. Given the strategic location within the Horn of Africa, Ethiopia in general Dashen Bank S.C in particular is vulnerable to transnational smuggling activities and trafficking in narcotics, persons, arms, and etc. Additionally, Ethiopia is home to high tariffs that may further encourage customs fraud and trade-based money laundering. These vulnerabilities have contributed to a huge loss of revenue for the growing nation via illicit financial outflows.

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

When we see the performance of Dashen bank S. C's, Reporting of Suspicious Transaction (STR) is below medium level. On the other hand, the bank's Cash Transactions Report (CTR) above cash limit is with higher performance but identifications and conducting of CDD on Politically Exposed Persons (PEPs) at zero level. Respondents of the banks experts are found to be in a highly aware of AML and related issues.

## 5.2. Conclusion

Based on the above findings the next section provides the conclusion for the issues raised in the research objective. Money laundering is not a question of one bank but a problem for the country, for the financial industry and for the international community at large. Money laundering becomes complicated for the fact that the business in the financial sector becomes sophisticated due to new technologies like wire transfer. The negative economic effects of money laundering on economic development are difficult to quantify, yet it is clear that such activity damages the financial-sector institutions particularly banks that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth, and can distort the economy's external sector, international trade and capital flows to the detriment of long-term economic development.

Money laundering impairs the development of these important financial institutions for two reasons. First, money laundering erodes Dashen bank SC in particular and financial institutions themselves in general, as money-laundering activity increases, the entire financial institutions in developing countries are vulnerable to corruption by criminal elements seeking to gain further influence over their money-laundering channels. Second, particularly in developing countries, customer trust is fundamental to the growth of sound financial institutions, and the perceived risk to depositors and investors from institutional fraud and corruption is an obstacle to such trust. Believing that this activity is also an on fire issue in Ethiopia, the government has promulgated laws that govern the issue of money laundering and terrorist financing.

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

### 5.3. Recommendations

The following are some of the recommendations for further actions and future studies.

Money laundering dictates increased crime and corruption, reduction in government revenue, undermined legitimate private sector and privatization efforts, socio-political danger and a hazard on nations' bad reputation risk and negative image to the bank itself.

Even though Dashen bank's performance of AML is in a good progress, there are still some remaining gaps. As per the finding, the researcher recommends the following points on government institutions NBE, EFIS and Dashen Bank S.C itself in particular and the FIs of Ethiopia in general.

- In order to reduce vulnerability, Dashen Bank SC should strengthen their KYC and CDD.
- The bank should conduct ongoing and enhanced due diligence for customer of the bank and customers of the customer i.e. the so called knowing customer of customer (KYCC) to fully comply with correspondent bank and remittance service providers AML requirement.
- Concerned bodies of Dashen Bank SC should adopt international best practices concerning AML policies and procedures.
- Board of directors and top management of Dashen Bank SC should give due attention for training and awareness creation concerning the concept of money laundering and its consequence that will residue to the banks reputation, regulatory risk, compliance risk and financial losses, to all the employees of the bank as required.
- Enterprise risk and compliance management department should give due emphasis in their AML training and awareness creation part about the concept of money laundering issue as an issue of personal reputation, the reputation of the Dashen bank SC they are working for and ultimately the reputation of the Country at large.
- The bank should strictly underline for its staff to declare suspicious transactions immediately to Compliance office to alleviate such huge consequences.
- Since the FIs are used as a vehicle for illegal activity by illegal customers, the bank faces the risk of fines, penalties, sanctions and even forced terminations of operations; so KYC & follow up of transactions should be done by all front line staffs of the bank.



- The bank should strictly follow up and improve on AML solutions in order to comply with national and international AML regulatory requirements.
- The bank should declare that strict Compliance to regulations in general and to AML policy and procedure implementation in particular as it is the question of survival for the bank.
- The findings of this study are also expected to be a great input to future academic studies related to money laundry, as this study only scratched the small surface of the same.

## REFERENCES

- Arnone, Marco (2010). *International anti-money Laundering Programs*, Empirical Assessment and Misuse in Criminal Regulation, *Journal of Money Laundering Control*, Vol. 13, No. 2. Page 231.
- Anteneh, Mekonnen (2014). *Combating money laundering and financing of terrorism: training document*.
- Araujo, Ricardo Azevedo (2006). The Effects of Money Laundering and Terrorism on Capital Accumulation and Consumption, *Journal of Money Laundering Control*, Vol. 9 No. 3 Page 265.
- Ayele Yitayew (2014). *Anti-Money Laundering and Combating Terrorist Financing (AML/CTF) compliance practices in Ethiopia's Commercial Banks; Opportunities and Challenges*.
- Bachus, Alison S. (2004). *From Drugs to Terrorism: The Focus Shifts in the International Fight against Money Laundering after Sep. 11, 2001*, *Arizona J. Int'l and Comp. Law*, Vol.21. No.3. Page 842.
- Banking sector money laundering and terrorist financing risk based approach guideline: by EFIS* November 2017; Addis Ababa
- Barbut, Lisa A. (1995). Money Laundering: An International Challenge, *Tulane J. of Int'l and Comp. Law*, P.163, Vol.3. Page 163.
- Binyam Shiferaw (2011). *Money Laundering and Countermeasures: A Critical Analysis of Ethiopian Law with Specific Reference to the Banking Sector*.
- Bourne, Jane (2002). *Money Laundering: what is being done to combat it? A Comparative Analysis of the Laws in the United States of America, the United Kingdom and South Africa*, *S. Afr. Mercantile Law Journal vol.14 issued Page 475*.
- Clark, Nicholas (1996). The Impact of Recent Money Laundering Legislation on Financial Intermediates, *Dlekinson Journal of International Law*, Vol. 14. Issue.3 Page 470.
- Cuellar, Mariano-Florentino (2003). The Tenuous Relationship between the Fight against Money

- Laundering and the Disruption of Criminal Finance, *Journal of Criminal Law and Criminology* Vol. No. 2. issue3. Page.295.
- Daley, Modelyn J. (2000). Effectiveness of United States and International Efforts to Combat International Money Laundering *St. Louis Warsaw Transatlantic Law Journal*
- David Chaikin and J.C. Sharman (2009). *Corruption and Money Laundering*. A Symbiotic Relationship
- Doyle, Todd (2002). *Cleaning Anti-money Laundering Strategies: Current FATF Tactics Needlessly Violates Int'l Law*, *Houston Journal of International Law*, Vol.24:2. P.283.
- Ellinger, E.P, E. Lomnicka and R. J. A. Hooley, (2006). *Ellingers Modern Banking Law*, 4th ed., Oxford University Press
- Ezeani, S.I. (1998). *Research methods: A realistic approach*. Ibadan: Elohim Publishers.
- Fagyal, Paul (2006). *The Anti-Money Laundering Provisions of the Patriot Act: Should they be allowed to sunset?* St. Louis U.L.J. Vol. 50. issue 13 P. 1361-1364. *ESAAMLG Strategic plan*.
- Franco Taisch, (1992). *Swiss Statutes Concerning Money Laundering: The International Lawyer*, Vol. 26, No. 3 (Fall 1992), pp. 695-714 Published by: American Bar Association
- Greuning, Hennie Van (2003). *Analyzing and Managing Banking Risk: a Frame work for Assessing Corporate Governance and Financial Risk*, 2nd ed.
- Hughes, Sarah Jane (1992). *Policing Money Laundering through Fund Transfer: A Critique of regulation Under the Banking Secrecy Act*, *Indiana Law Journal*, Vol. 67.issue 283 P.16
- Idowu, Abiol (2011). *Anti-money laundering policy and its effects on bank performance in Nigeria*. a Dept. of Management and Accounting Faculty of Management Sciences Ladoke Akintola University of Technology.
- International Monetary Fund (IMF) Research Department (1997). *An Analysis of External Debt and Capital Flight in the severely Indebted Low Income Countries in Sub-Saharan Africa*.
- James K. Boyce and Léonce Ndikumana *Capital Flight from Sub-Saharan African Countries: Updated Estimates, 1970 - 2010* Political Economy Research Institute University of Massachusetts, Amherst October 2012.
- John Mc Dowell and Gary Novis (2001). *The consequences of money laundering and financial*

John Walker (1995). *Estimates of the extent of Money laundering in and through Australia*:

Prepared for the Australian Transaction Reports and Analysis Centre

Jerez, Paulin L. (1997). *Proposed Brazilian Money Laundering Legislations: Analysis and Recommendation*, Am. U. J Intl'L. Law and Policy

Kennedy, Paul (2003). *Watching the Clothes Go Round: Combating the Effect of Money*

Laundering on Economic Development and International Trade, Int'l Trade L. J. kim,

Jongho (2008). *Ubiquitous Money and Walking Banks: Environment, Technology and*

Competition in Mobile Banking, Richmond Journal of Global Law and Business, Vol.8.2

Lacey, Kathleen A. and Barbra Crutchfield George, (2003). *Crackdown on Money Laundering*:  
A

Comparative Analysis of the Feasibility and Effectiveness of Domestic and Multilateral  
Policy Reform, 23 NW. J. Int'l Law and Business

Levi, Michael (2002). *Money laundering and its Regulations*, American Academy of Political  
and

Social Science, Saga Publications, Vol. 582

Liat Shetret, Tracey Durner, Danielle Cotter, & Patrick Tobin (2015). *Tracking Progress Anti-*

*Money Laundering and Countering the Financing of Terrorism in East Africa and the  
Greater Horn of Africa*. Global Center on Cooperation Security.

Léonce Ndikumana, James K. Boyce and Ameth Saloum Ndiaye (2014). *Capital Flight*:

Measurement and Drivers working paper series Number 363.

Léonce Ndikumana & James K. Boyce April (2008). *New Estimates of Capital Flight from Sub-  
Saharan African Countries*: Linkages with External Borrowing and Policy Options  
working paper series Number 166.

Manney, Rachel (2002). *Money Laundering: The Global Threat to the Integrity of Financial  
system*, published at wilmcot.com.

Mei Leong, Angela Veng (2007). *Cashing Dirty Money: Domestic and International Measures  
against Money Laundering*, *Journal of Money Laundering Control*, Vol.10. No.2. P.141.

Ping, H.E. (2008). The Measures on Combating Money Laundering and Terrorism financing in  
the PRC, *Journal of Money Laundering Control*, Vol. 11: No.4, P.321.

Rudich, Denisse V. (2005). *Performing the Twelve Labors: The G 8's Role in the fight against*

- Money Laundering, London Metropolitan University.
- Schott, Paul Allan (2006). *Reference Guide to Anti Money Laundering and Combating the Financing of Terrorism*, 2nd ed., the World Bank
- Shehu, Abdullahi Y, (2010). Promoting Financial Sector Stability through an Effective AML/CFT Regime, *Journal of Money Laundering Control*, Vol. 13, No.2. P.141.
- Southern and Eastern African Money Laundering Conference *Journal of African Law*, Vol. 41, No. 1 (1997), pp. 150-151. Published by: School of Oriental and African Studies
- Sultzter, Scott (1995-1996). *Money Laundering: The Scope of the Problem and Attempts to Combat It*, Tenn. L. Rev. P. 145, Vol.63:143
- Tesfay G/egziabher (2015). Assessment of Techniques and Methods of Trade Based Money Laundering: the case of Ethiopia
- Thoornton, Philip (2006). "Cash Exodus Points to Laundering." The Independent, Transparency International Corruption Perception Index, 2014.
- Yoseph Aregewgewoin (2012). *Determinants of Capital Flight in Common Market for Eastern and Southern Africa Member Countries: Dynamic Panel Data Analysis* Addis Ababa University.
- World Bank (2012). Diagnosing Corruption in Ethiopia Perceptions, Realities, and the Way Forward or Key Sectors.
- World Bank (2006) Anti-Money Laundering and Combating the Financing of Terrorism
- Yunus Husein (2007). *The links between corruption and money laundering: Indonesia's Experience* Indonesia Financial Transactions and Analysis center, Bangkok.
- Zagaris, Bruce and Scott B. MacDonald (1992). *Money Laundering, Financial Fraud, and Technology: The perils of an Instantaneous Economy*, 26 Geo. Wash. J. Int'l. L. and Econ

### **Proclamations:**

- Proclamation No.171/2009. 'Financial Intelligence Center Establishment Council of Ministers Regulation '. Negarit Gazeta, 16th year No.5 Addis Ababa 12th Feb-2010.
- Proclamation No. 414/2004, the Criminal Code of the Federal Democratic Republic of Ethiopia.
- Proclamation No. 652/2009, Anti-Terrorism Proclamation, Negarit Gazeta, 15th Year No.57.
- Proclamation No 171/2009: Financial Intelligence Center Establishment Council of Ministers

## Regulation

Proclamation No 657/2009: ‘Prevention and Suppression of Money Laundering and the Financing

of Terrorism proclamation’ Federal Negara Gazeta 16th year No.1, Addis Ababa, 16th December, 2009.

Proclamation No 780/2013: Prevention and Suppression of Money Laundering and the Financing of Terrorism. Replacement of proc.No.657/2009.A.A.Federal Negarit Gazeta.

Directive No. 01/2014: Financial Anti-money laundering and Countering the Financing of Terrorism.

Regulation No. 306/2014 detailing procedures for freezing terrorist assets

Foreign Exchange Directive, 2006. International Remittance Service Providers FXD/30/2006.

Foreign Exchange Directive, 2013. For the use and Acceptance of Credit Cards, Cash Notes and

## **Public Statement:**

FATAF (2014). ‘Public Statement.’ 19 October 2018.

## APPENDICES

### *Appendix I: Research Questionnaire and Interview on consequences of Money laundering in Dashen bank S.C*

Dear respondents,

I am a post graduate student in Saint Mary's University Faculty of Business Administration. I am undertaking a thesis titled "**Assessment of Money Laundering and Its Consequences: The Case of Dashen Bank S.C.**" in partial fulfillment of the Requirements for the Degree of Master of Arts in Business Administration. The study is conducted for academic purpose, and your responses will be kept confidential.

The objective of this study is to investigate Dashen Bank's stand and performance on anti-money laundering and to highlight potential consequences of money laundering on the bank. Accordingly, this questionnaire is designed to collect relevant data using Likert Scale and open ended questions as a way of survey. The soundness and validity of findings highly depend on your honest and thoughtful responses. Therefore, I kindly request you to fill the questionnaire carefully and return at your earliest convenience.

**N.B.:** There is no compensation for responding nor is there any risk. If you have any comments, questions, or concerns with regard to the survey, the questions, or the purpose of the study, please contact.

Email: [mchernet07@gmail.com](mailto:mchernet07@gmail.com)

Thank you in advance for your kind cooperation!

**Meseret Chernet**

**Part I: Personal Information**

- A. Gender:            Male            Female
  
- B. Educational Status:    TVET Diploma            First Degree  
                                   Second Degree & Above    Special Training
  
- C. Work experience:    Less than 5 years            Between 5 and 10 years  
                                   More than 10 years
  
- D. Job position:        Officer                    Senior Officer  
                                   Manager
  
- E. Staff member in:    Head Office            Branch
  
- F. Your Awareness and knowledge on the issue of money laundering:  
                                   High                    Low  
                                   Medium                No Information

❖ If your response for **Question F** is **High** or **Medium**, please proceed to the next Questions.

**Part II: Vulnerability factors and methods of Money Laundering**

1. There are various methods that criminals use to launder their illicit fund. With this respect, which of the following methods are prevalent in Dashen Bank S.c.?(Note that: You can choose more than one method)

- High use of other persons' name (example family, friends, close relatives, etc)
- Bank Deposit
- Use of fictitious name
- Engaging in import and export
- Holding cash on hand
- Shell business
- Purchase of luxurious goods
- Purchase of real estate
- Other methods (please specify)  
\_\_\_\_\_



2. Please evaluate the extent of vulnerability factors of money laundering in the case of Dashen Bank S.C.

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

10. Other vulnerability factors (Please specify)

---



---

**Part III: Status of Dashen Bank S.C. to comply with Anti-Money Laundering requirements**

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

---

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

No.	Requirements	Very Good	Good	Satisfactory	Low	Very Low
		5	4	3	2	1
1.	Reporting suspicious transactions					
2.	Cash Transaction Report (CTR) beyond the cash limit					
3.	keeping records of customers for reasonable period					
4.	know your customer (KYC)					
5.	Enhanced customer due diligence for					
6.	Undertaking continuous Customer Due Diligence (CDD).					
7.	Assessing new products and services against money laundering					
8.	providing ongoing training for the management and employees					
9.	Please specify if any					

**Part IV: Possible effects of money laundering for Dashen bank S.C.**

- ❖ How do you measure the possible effects of money laundering for Dashen bank S.C. on the following requirements?

No.	Effects of Money Laundering	Extent of prevalence of crimes					
		Very High	High	Medium	Low	Very Low	No Information
1.	loss of reputation/image						
2.	financial loss						
3.	Regulatory fine						
4.	Loss of correspondent bank relationship						
5.	Loss of Personal reputation						
6.	Country wide risk						
7.	Social unrest / political instability to the country						
8.	Leads to terrorist financing						
9.	Result for un equal financial market opportunity						
10.	Facilitate low economic development						

- ❖ Please list the harmful effects of money laundering for Dashen bank S.C.

\_\_\_\_\_

\_\_\_\_\_.

- ❖ Other comments:

\_\_\_\_\_.

**Thank You for Your Kind Cooperation!!!**

## **Interview Questions**

1. How the Frequency of Suspicious Transaction Report (STR) and Cash Transaction Report (CTR) could be explained at Dashen Bank S.C.?
2. What was the result of an assessment report made by governmental bodies?
3. How do you evaluate Dashen Bank S.C. Cooperation and coordination with national and international organizations?
4. Dashen Bank S.C. Progress for FATF acknowledgement. What do you say on this point?
5. Even though, FIS established in, 2010 how do you see its progresses in the past 10 years for AML, Please forward your comment on the issue?
6. What challenges that Dashen Bank S.C. encountered in the Anti-Money Laundering activities?
7. How Hawal\*la, Black market foreign exchange, and border trade contributes for money laundering at Dashen Bank S.C.?
8. What do you say the impact of Trade finance or Trade Based Money Laundering for Dashen Bank S.C.?
9. How do you evaluate the level of board of director's top management and the general staffs awareness on the bad consequences of Money Laundering for the bank?
10. How strong is the Dashen Bank S.C. to fight money laundering?
11. What are the issues contributing to, methods, and consequences of money laundering for Dashen Bank S.C.?
12. What are the crimes mostly regarded as a threat for money laundering in Dashen Bank S.C.?
13. How is Dashen Bank S.C. evaluated on AML activities compared to its peer banks?
14. What impact has the location of Ethiopia to be the horn of Africa?

**Appendix-II: Background Data**

		Frequency	%
Sex	Male	61	88.4%
	Female	8	11.6%
	TOTAL	69	100.0%
Education	BA	46	66.7%
	MA and above	16	23.2%
	Special Training	0	0%
	Total	69	100.0%
Experience	<5 years	18	26.1%
	5-10 years	23	33.3%
	>10 years	28	40.6%
	Total	69	100.0%

**Appendix-III: Respondents Anti Money Laundry Awareness at Dashen Bank**

**SC**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HIGH	38	52.8	55.1	55.1
	MEDIUM	31	43.1	44.9	100.0
	Total	69	95.8	100.0	
Missing	System	3	4.2		
Total		72	100.0		

***Appendix-IV: Dashen Bank SC AML Performance Statistics (Mean (Descriptive statistics))***

Descriptive Statistics			
	N	Mean	Std. Deviation
Reporting suspicious transactions	69	3.63	0.96
Reporting transactions above cash limit	69	4.72	0.66
Keeping records of customer for long period	69	4.52	0.90
KYC	69	3.65	0.95
PEPs enhanced CDD	69	1.89	1.16
Conducting continuous CDD	69	3.08	0.96
Assessing new bank products and services in accordance with AML	69	3.28	1.15
Providing training for staffs and management members in relation with AML	69	3.76	0.85

***Appendix-V: Dashen Bank SC Money Laundering Vulnerability Issues Statistics***

Descriptive Statistics			
	N Valid-69, Missing -3	Mean	<i>Std. Deviation</i>
rigid bank secrecy rules	69	2.48	0.994
lack of or inadequate KYC requirements	69	3.96	0.946
lack of effective monitoring of cross border transactions	69	4.10	0.825
no requirements for reporting of large cash transactions (greater than 300,000 birr)	69	2.2174	1.16151
failure to keep customers information for reasonable period	69	2.6377	1.31698
lose control of banks by the controlling authority	69	3.3043	1.25211
no or lack of external cooperation	69	2.9710	0.82196
failure to criminalize money laundering	69	3.3913	0.97343
lack of awareness	69	3.1739	0.54115

***Appendix-VI: Statistics for possible effects of money laundering at Dashen Bank SC***

Descriptive Statistics	N Valid-69 Missing -3	Mean	Std. Deviation
loss of reputation/image	69	3.9275	0.64895
financial loss	69	3.9275	0.82816
Regulatory fine	69	3.2464	1.02046
Loss of correspondent bank relationship	69	3.7101	0.76891
Loss of Personal reputation	69	2.6377	1.13722
Country wide risk	69	2.6812	1.03601
Social unrest/political instability to the country	69	3.6812	0.71728
Leads to terrorist financing	69	3.9130	0.74240
Result for an equal financial market opportunity	69	3.8986	0.73053
Facilitate low economic development	69	3.6667	0.98020
Using money for illegal purpose	69	3.4638	0.81493