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February 2013



# **The Anti-Money Laundering and Countering Terrorist Financing Regime in Ethiopia**

## **Second Assessment Report**

**TU'EMAY AREGAWI DESTA**

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## **ABOUT THE REPORT**

The second assessment study was facilitated by the Center on Global Counterterrorism Cooperation (CGCC) under a project supported financially by the Royal Government of Denmark. The study was carried out between September and November 2012.<sup>†</sup> The project was designed and the study was carried out by the author supported by Liat Shetret, CGCC Senior Analyst, and Alistair Millar, CGCC Director.

The views presented here do not necessarily represent the views of CGCC or the Royal Government of Denmark.

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<sup>†</sup> On 4 January 2013, as this report was going to press, Ethiopia adopted revised anti-money laundering legislation. This development was acknowledged by the Financial Action Task Force (FATF) in its public statement of 22 February 2013. See: FATF, "FATF Public Statement," 22 February 2013, <http://www.fatf-gafi.org/media/fatf/documents/statements/Public%20Statement%2022%20february%202013.pdf>.

## ACRONYMS

<b>AML</b>	Anti-money laundering
<b>CDD</b>	Customer due diligence
<b>CFT</b>	Countering the financing of terrorism
<b>CGCC</b>	Center on Global Counterterrorism Cooperation
<b>CTR</b>	Cash transaction report
<b>DNFBP</b>	Designated nonfinancial business and profession
<b>EIFS</b>	Ethiopian Institute of Financial Studies
<b>ERCA</b>	Ethiopian Revenues and Customs Authority
<b>ESAAMLG</b>	Eastern and Southern Africa Anti-Money Laundering Group
<b>FATF</b>	Financial Action Task Force
<b>FIC</b>	Financial Intelligence Centre (Ethiopia)
<b>FIU</b>	Financial intelligence unit
<b>ICRG</b>	International Co-operation Review Group (FATF)
<b>IGAD</b>	Intergovernmental Authority on Development
<b>IMF</b>	International Monetary Fund
<b>INSA</b>	Information Network Security Agency (Ethiopia)
<b>ISSP</b>	IGAD Security Sector Program
<b>KYC</b>	Know your customer
<b>MOU</b>	Memorandum of understanding
<b>NBE</b>	National Bank of Ethiopia
<b>SOP</b>	Standard operating procedure
<b>STR</b>	Suspicious transaction report
<b>UNODC</b>	UN Office on Drugs and Crime

## EXECUTIVE SUMMARY

Money laundering and terrorist financing are among the growing criminal activities in East Africa and the Greater Horn region. Money laundering and terrorist financing are transnational, cross-border, multifaceted, and complex problems that require cooperation and coordination among actors looking to successfully respond to them. Not only do money laundering and terrorist financing negatively affect the integrity and stability of the financial sector, but they also undermine national security and economic development goals. Strong measures on anti-money laundering (AML) and countering the financing of terrorism (CFT) can help mitigate criminal behavior by reducing or eliminating the economic gain from criminal activities. This second assessment report is the account of a qualitative study that aims to explore the progress made by and the limitations of Ethiopian AML/CFT efforts as well as the future challenges to and opportunities of complying with international AML/CFT regulations in the country. This report builds on a report titled “ISSP-CGCC Joint Baseline Study on Anti-Money Laundering and Countering the Financing of Terrorism in the IGAD Subregion,” released in April 2012 by the Center on Global Counterterrorism Cooperation (CGCC) in collaboration with the Intergovernmental Authority on Development (IGAD) Security Sector Program (ISSP).

The baseline study report revealed that national and subregional AML/CFT arrangements are not yet sufficiently developed in accordance with international standards. The relevant authorities do not have sufficient capacity and capability to prevent, identify, investigate, prosecute, and punish cases of money laundering and terrorist financing offenses and the perpetrators. Interagency collaboration and coordination mechanisms remain highly informal and feeble.

The baseline study noted that the AML/CFT regime in Ethiopia is in its early stages of development. In part due to political pressure from the Financial Action Task Force (FATF) and the desire of Ethiopia to enhance its reputation as a reliable and growing market for investment, Ethiopia established the Financial Intelligence Centre (FIC) in 2010 as the national center responsible for implementing and coordinating its AML/CFT regime.

In mid-2012, the FATF International Co-operation Review Group (ICRG) highlighted Ethiopian strategic deficiencies in the fight against money laundering and terrorist financing since 2010. The ICRG subsequently acknowledged, in its public statement of October 2012, that Ethiopia “has taken steps” toward improving its AML/CFT regime, including by building up its financial intelligence unit (FIU), but noted that Ethiopia had not made sufficient progress in implementing the action plan and pointed to certain AML/CFT deficiencies.

## SUMMARY OF KEY FINDINGS

Ethiopia has made numerous key improvements to strengthen its AML/CFT regime since the ISSP-CGCC Joint Baseline Study was published in April 2012.

- A three-year strategic action plan has been developed and is under review for implementation.
- A comprehensive AML/CFT law has been drafted by national experts and reviewed by an experienced expatriate consultant for compliance with international standards and requirements and is under review by an expert team set by the Council of Ministers of the Ethiopian government. Detailed regulation is also under development while enactment of the draft law is pending.
- The FIC has developed, installed, and applied a computerized report management system capable of receiving, processing, and disseminating cash transaction reports (CTRs) and suspicious transaction reports (STRs). The system detects and analyzes suspicious cases of money laundering and terrorist financing to allow concerned law enforcement authorities to proceed if necessary with investigations, then investigate.
- At least three criminal trials involving money laundering and terrorist financing are underway, and another dozen cases are under investigation.
- The FIC, a majority of Ethiopian banks, the Ministry of Justice, and partnering international organizations have organized and delivered various training sessions on AML/CFT issues that have made a start in the process of raising the overall awareness, supervision and monitoring skills, and technical expertise of relevant professionals in preventing and countering money laundering and terrorist financing. FIC leadership and operational officers have acquired vital experiential and practical learning skills by visiting foreign FIUs.
- The FIC has implemented its organizational structure plan and recruited, oriented, and deployed operational and support staff. The FIC office is equipped with the necessary facilities, technologies, and resources that enable it to operate professionally.
- A majority of formal banks are said to have implemented customer due diligence, know your customer, and AML/CFT policies, and all banks have created compliance units that oversee AML/CFT measures as a result of requirements by the National Bank of Ethiopia (NBE).
- New legislation requires all citizens to have national ID cards that comply with international security standards, and the Immigration and Nationality Affairs Main Department has commenced a project to design, print, and issue the national ID card.

The AML/CFT initiatives are faced with key limitations and challenges to their effective and efficient implementation, including a lack of

- a national AML/CFT policy or strategy (revised FATF Recommendations nos. 1 and 2);
- comprehensive legislation, regulatory frameworks, and detailed regulations;
- established formal and institutionalized national interagency cooperation and coordination (revised FATF Recommendations no. 2);
- all-inclusive reporting practices of STRs and CTRs from all legally required entities (revised FATF Recommendations no. 20);
- detailed standard operating procedures on prioritized business areas;
- risk-based compliance supervision (revised FATF Recommendations nos. 26–28);
- an institutionalized AML/CFT training scheme; and
- enhanced awareness of the money laundering and terrorist financing threats among policymakers and practitioners.

The keen desire of the Ethiopian government to place an effective and efficient AML/CFT regime in the country presents an important opportunity for engagement with the FIC and its international partners who are genuinely interested in strengthening the AML/CFT framework. The FIC leadership has openly and candidly expressed its interest to constructively collaborate with international regulatory bodies and donor communities in numerous areas, including

- the provision of technical assistance, including detailed assessments of AML/CFT frameworks and money laundering and terrorist financing vulnerabilities, threats, and risks;
- institutional and human capacity building; and
- formal engagement in regional and international AML/CFT bodies.

The FIC, as a central AML/CFT body, is positioned to take a leading role toward the realization of a robust AML/CFT system that addresses the vulnerabilities created by money laundering and terrorist financing activities and the threats posed by those activities to the security, stability, and economic development of the country. It also seeks to establish an AML/CFT regime that meets international standards and obligations not only because of adherence to treaties and protocols but also because of the critical recognition that the Ethiopian interest in development is best served by constructive engagement in the global arena. Therefore, Ethiopian AML/CFT arrangements should address national, regional, and international aspects of money laundering and terrorist financing in which the FIC can serve as a platform to forge domestic and international cooperation.



## OBJECTIVES, SCOPE, AND METHODOLOGY

Since the publication of the baseline study and in the last few months of 2012, the FIC has made notable progress in its efforts to strengthen the AML/CFT regime in Ethiopia, including by building up its FIU with an eye to making it fully operational and by strengthening its legal regime. Nevertheless, the FIC and relevant institutions and agencies are still faced with challenges in implementing AML/CFT measures that fully comply with regional and international standards.

This report discusses these challenges, notes the progress that has been made, and offers

- feedback to policymakers, collaborators, and other actors involved in strengthening Ethiopian and subregional AML/CFT arrangements to motivate them for further continued engagement;
- input to inform national and international policy development partners on continued suggested entry points to further enhance AML/CFT efforts; and
- suggestions toward sharing experiences and lessons learned with and by practitioners working on other nascent regional AML/CFT arrangements.

This second assessment report identifies the key progress of, limitations and challenges to, and opportunities for the implementation of AML/CFT standards and measures in Ethiopia. Moreover, the report outlines recommended entry points to further strengthen and expedite AML/CFT efforts in compliance with regional and international standards. This report emphasizes the achievements of the FIC with due attention to the relevant authorities.

The study collected data from a literature review that included recent policy documents, reports, and legal texts, supplementing this desk-based research with interviews with FIC officials and relevant officers from the NBE, Ethiopian Federal Police Commission, and Ethiopian banks; Ministry of Justice officials; and the Ethiopian Revenues and Customs Authority. The study benefited from the presentations made and discussions held during the meeting titled the “Expert Forum on Mutual Familiarization of Eastern African Financial Intelligence Units With International AML/CFT Bodies,” held in Brussels on 10–11 October 2012. The forum was facilitated by CGCC, bringing together FIU officials from more than a dozen countries, including the IGAD countries, and relevant FATF-style regional bodies, including the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). The progress reported by the FIC was analyzed against the findings of the 2012 baseline study report and other documents, such as FATF statements from the past two years.

This report is not an exhaustive technical assessment of the AML/CFT regime in Ethiopia, nor is it intended to replicate the technical review of FATF, the ICRG, or any other legitimate performance review, for example, that conducted by the ESAAMLG. The first section provides a general background of AML/CFT arrangements in Ethiopia and their limitations, focusing on the legal, institutional, and operational regimes. The second section details the progress that

the FIC has made in improving its AML/CFT measures since the baseline study report was issued in April 2012. The third section summarizes the remaining capacity gaps inhibiting Ethiopia from implementing an effective and efficient AML/CFT regime in compliance with international standards in the following functional areas: (1) a national strategy, policies, and ESAAMLG accession; (2) legislation, rules, and regulations; (3) organizational cooperation; and (4) standard operating procedures. The fourth section identifies priority entry points in the country and outlines possible ways forward, highlighting the prospects and suggested areas of intervention for strengthening the AML/CFT regime in the short and long terms. The four sections of this report provide analysis according to the key themes of strategic policy, legislation, capacity building, operations, interagency collaboration, and institutional and administrative frameworks.

For Ethiopia, AML/CFT efforts are important for strengthening the integrity of the financial sector, macroeconomic stability, and national security. Nevertheless, despite the important improvements Ethiopia has made and is progressively continuing to achieve, concerns remain regarding inadequately addressed sections of the AML/CFT framework and its lack of compliance with international standards. The ratification of new legislation currently in the pipeline and subsequent detailed regulations, supported by institutional strengthening, operational improvements, and enhanced collaborations, will help Ethiopia more effectively respond to international obligations and enable the country to better counter money laundering and terrorism financing and related criminalities.

## AML/CFT ARRANGEMENTS IN ETHIOPIA



A cash withdrawal at a bank in Addis Ababa. Most everyday transactions in Ethiopia, both large and small, require cash.

Ethiopia faces a number of significant vulnerabilities that pose continual and increasing risks of money laundering<sup>1</sup> and terrorist financing.<sup>2</sup> These include

- the prevalence of a significant informal and largely cash-based economy;
- the prevalence of high-level serious crimes, such as corruption, tax evasion, smuggling, trafficking (human, drugs, and arms), and illicit financial flows;
- limited awareness of the problems of money laundering and terrorist financing and their impacts;
- poorly managed, porous borders;
- limited control mechanisms over movement of cash;
- regional instability and the growing presence of transnational criminal networks in the region, extending into other subregions including the Sahel and West Africa; and
- limited measures on anti-money laundering and countering the financing of terrorism (AML/CFT) and inadequate capacities to implement existing frameworks and legislation.

<sup>1</sup> For the definition of money laundering that is used in this report, see UN Office on Drugs and Crime (UNODC), *United Nations Convention Against Transnational Organized Crime and the Protocols Thereto* (Vienna: UNODC, 2004), art. 6, <http://www.unodc.org/documents/treaties/UNTOC/Publications/TOC%20Convention/TOCebook-e.pdf> (hereinafter UN transnational organized crime convention).

<sup>2</sup> For the definition of financing of terrorism that is used in this report, see UN General Assembly, A/RES/54/109, 9 December 1999, art. 2 (*International Convention for the Suppression of the Financing of Terrorism*).

In response to the above risks, Ethiopia established an AML/CFT regime based on the concept of sustainable economic development that is intolerant of illicit and corrupt practices and activities. The AML/CFT baseline study report released in April 2012 by the Center on Global Counterterrorism Cooperation (CGCC) in collaboration with the Intergovernmental Authority on Development (IGAD) Security Sector Program (ISSP),<sup>3</sup> titled “ISSP-CGCC Joint Baseline Study on Anti-Money Laundering and Countering the Financing of Terrorism in the IGAD Subregion,”<sup>4</sup> as well as such other sources as statements by the Financial Action Task Force (FATF) International Co-operation Review Group (ICRG)<sup>5</sup> and the U.S. Department of State 2011 AML report,<sup>6</sup> have outlined recommendations on how to improve the Ethiopian AML/CFT regime to prevent and combat these vulnerabilities and threats. In the last two years, Ethiopia has adopted some significant, practical measures to improve its AML/CFT regime as a result of multiple initiatives.

### LEGAL REGIME

The AML/CFT framework in Ethiopia was created in 2009 following the enactment of proclamation no. 657, even though Ethiopia had already criminalized money laundering in the revised penal code of 2005. Ethiopia established its Financial Intelligence Centre (FIC) subsequent to the promulgation of the AML law and Council of Ministers’ regulation number 171. The FIC began limited operations in 2011 and has been designated as the central authority for handling money laundering, terrorist financing, and other related matters in the country.

Ethiopia has ratified a number of regional and international instruments that directly support its AML/CFT regime, including

- the UN transnational organized crime convention,
- the UN Vienna convention against drugs and psychotropic substances and related protocols,<sup>7</sup>
- Organization of African Unity anticorruption conventions,
- the IGAD mutual legal assistance convention,
- the IGAD extradition convention, and
- the UN action plan that committed Ethiopia to implement UN Security Council Resolutions 1267 and 1373.

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<sup>3</sup> IGAD is a regional economic cooperation group of countries located in East Africa and the Horn of Africa, recognized by the African Union and comprising Djibouti, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda. Eritrea is not currently an active member following a self-imposed suspension.

<sup>4</sup> Tu’emay Aregawi Desta and James Cockayne, eds., “ISSP-CGCC Joint Baseline Study on Anti-Money Laundering and Countering the Financing of Terrorism in the IGAD Subregion,” Center on Global Counterterrorism Cooperation (CGCC), 2012, [http://www.globalct.org/images/content/pdf/reports/AML\\_Report.pdf](http://www.globalct.org/images/content/pdf/reports/AML_Report.pdf) (hereinafter ISSP-CGCC AML/CFT baseline study).

<sup>5</sup> For example, see Financial Action Task Force (FATF), “FATF Public Statement,” 22 June 2012, <http://www.fatf-gafi.org/documents/documents/fatfpublicstatement-22june2012.html>.

<sup>6</sup> Bureau of International Narcotics and Law Enforcement Affairs, U.S. Department of State, “2011 International Narcotics Control Strategy Report (INCSR)—Volume II: Money Laundering and Financial Crimes Country Database,” 20 May 2011, <http://www.state.gov/j/inl/rls/nrcrpt/2011/database/index.htm>.

<sup>7</sup> See United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988.

The National Bank of Ethiopia (NBE) has introduced and applied customer due diligence (CDD) standards across all banks and supervises the financial sector's compliance activities as required by the AML law and related legislation. The charities and societies proclamation number 621 and regulation number 168, both enacted in 2009, require charities and societies to register with the central authority, expose their funding sources, submit profiles of their officers, and audit their transactions as part of its ongoing AML/CFT efforts.

Ethiopia has other existing laws that directly and indirectly contribute to the AML/CFT legal regime.

- Anticorruption laws, including proclamation numbers 433 and 434, both enacted in 2005, and their subsequent regulations
- Antiterrorism proclamation number 652, enacted in 2009
- Proclamation number 668, on disclosure and registration of assets of government officials, enacted in 2010
- Proclamation number 699, on the protection of witnesses and whistleblowers of criminal offenses, enacted in 2010
- Commercial Registration and Business Licensing Proclamation No. 731/2012
- Banking and insurance proclamations, regulations, and directives
- National Payment System Proclamation No. 718/2011
- Authentication and Registration of Documents Proclamation No. 467/2005

Although the 2009 AML law has strengthened the AML/CFT regime in Ethiopia, it is limited in its provisions on terrorist asset freezing, seizure, and forfeiture when compared to international standards.

Predicate offenses are defined in Ethiopian criminal law as “all serious crimes.”<sup>8</sup> The nonexhaustive illustrative list of predicate offenses significantly narrows the scope of predicate offenses in a way that limits the scope for application of the AML law in general and in detecting and investigating proceeds of crime specifically.

Recognizing the legal limitations, Ethiopia has drafted comprehensive AML/CFT legislation that strives to be compliant with international standards, including ICRG recommendations. The draft legislation has been reviewed by an international expert assigned by the UN Office on Drugs and Crime (UNODC) and, as of late 2012, is still under review by the Council of Ministers. Officials are optimistic that the parliament will pass the legislation. It is believed that enactment of this comprehensive draft law will help Ethiopia to fulfill its international obligations and to enhance its AML/CFT efforts.

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<sup>8</sup> As provided under article 684/7 of the Ethiopian criminal code, for the purpose of money laundering, serious crimes are those punishable with rigorous imprisonment of 10 years or more and crimes generating proceeds of 50,000 birr or more.



## **INSTITUTIONAL FRAMEWORK**

The Ethiopian FIC is the principal AML/CFT authority in Ethiopia and is responsible for coordinating the prevention and countering of money laundering and terrorist financing. The FIC has been set up as an “independent body” directly accountable to the prime minister with the following primary functions, among others, as provided in article 21 of the AML law and the related regulation:

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

The organizational structure of the FIC consists of a director-general and deputy director-general with three directorates underneath them.<sup>9</sup> The two core business directorates (the Information Systems and Financial Security Directorate and the Financial Transactions Examination and Analysis Directorate) are directly accountable to the deputy director-general while the supporting directorate (the Finance and Human Resource Directorate) answers to the director-general. The Legal Affairs Service and internal audit and public relations professionals are organized as staff of the director-general. A high-level interministerial Board of Directors, consisting of relevant government officials, is responsible for the overall strategic leadership of the FIC. The FIC is working toward filling existing vacancies and fulfilling its operational capacity. The FIC’s efforts, however, are limited by the scarcity of trained and qualified candidates in the field, inadequate technical systems and facilities, and low-level awareness of reporting entities and other relevant bodies.

The AML law provides authority to the FIC to investigate ML/TF offences, but in spite of the legal provision, FIC senior leaders confirmed that the FIC is organized in an administrative model.<sup>10</sup> Consequently, the FIC is referring suspected cases to concerned law enforcement agencies—the Ethiopian Federal Police Commission, the Ethiopian Revenues and Customs Authority (ERCA), and the Federal Ethics and Anti-Corruption Commission—for further investigation.

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<sup>9</sup> For an organizational chart of the FIC, see the annex to this report.

<sup>10</sup> For further reference on the different models of FIUs suggested by the World Bank and International Monetary Fund (IMF), see Paul Gleason and Glenn Gottselig, eds., *Financial Intelligence Units: An Overview* (Washington, D.C.: IMF, 2004), pp. 9–17.

## OPERATIONAL AND CAPACITY-BUILDING MEASURES

The FIC has organized and delivered basic training on AML/CFT issues for its own staff and representatives of the law enforcement community and the financial sector. Similarly, the Ethiopian Ministry of Justice, supported by UNODC and the Danish government, has conducted more than nine training sessions on AML/CFT issues for participants drawn from the financial sector, law enforcement agencies, the judiciary, and other governmental organizations. Some banks, including the largest public bank, the Commercial Bank of Ethiopia, have trained a sizeable number of staff on CDD measures, suspicious transaction reports (STRs), cash transaction reports (CTRs), and other compliance measures. The CDD directive requires financial sectors—as a practical matter, the banks—to train relevant personnel about the application and use of CDD, know your customer (KYC), and other AML/CFT arrangements and compliance management schemes, including record keeping, customer identification procedures, and customer acceptance policy.

The FIC started to receive STRs and CTRs of all transactions above the threshold of 200,000 birr<sup>11</sup> (equivalent to about \$11,500) in hard copy from banks only. Reportedly, some participants in the banking sector complained that the threshold of 200,000 birr for a CTR is not practical because the Ethiopian business community, being cash intensive, regularly handles transactions exceeding that amount.<sup>12</sup> Insurance companies, microfinance institutions, and intermediaries did not report in spite of the legal requirements. Furthermore, it must be cumbersome to receive, analyze, and disseminate the reports manually as hard copy submissions. Yet, stakeholders, including real estate agents, insurance agents, microfinance institutions, precious metals dealers, auditors and licensed accountants, brokers, car dealers, and others required to report suspicious activities and large cash transactions are in need of training. This will help to ensure that the wider financial sector is aware of and able to act to fulfill their own responsibilities to prevent AML/CFT events.

The Federal Police and the Federal State Prosecutor have investigated and prosecuted cases of terrorism financing and money laundering. Statistical reports from the Ministry of Justice revealed that, between 2009–2010 and 2011–2012, 126 cases of terrorism financing have been investigated or are in the process of being prosecuted. During the same period, 141 cases of money laundering have been investigated and prosecuted. Most of these cases are pursued under the 2009 AML and antiterrorism laws.

## COOPERATION AND COLLABORATION

The AML law provided the FIC with the right to enter into memoranda of understanding (MOUs) with government agencies and other FIUs to facilitate information sharing and technical assistance. The relevant authorities, as defined in article 2/4 of the law, appear to have good relationships among themselves. The interministerial Board of Directors, whose membership is mostly drawn from these relevant authorities, is one avenue of this positive

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<sup>11</sup> The birr is the Ethiopian currency.

<sup>12</sup> Elleni Araya, "Financial Intelligence Centre Drafting Anti-Money Laundering Bill Update," *Addis Fortune* 13, no. 638 (22 July 2012).

cooperation.<sup>13</sup> In practice, the FIC shares information with such important agencies as the police, state prosecutor, ERCA, and national intelligence and security service, although the cooperation is not supported by any policy or written guidelines requiring institutionalization. The head of the FIC legal service reported that a template MOU has been developed. Although it has not yet been finalized, the template MOU signals the awareness and interest of the FIC in institutionalized interagency cooperation.

The FIC is attempting to convene meetings of stakeholder representatives formally and regularly, but there has been a fuzzy demarcation of the roles of each entity (the central bank, criminal investigation, state prosecutor, and so on). An Ethiopian AML/CFT national task force, which would have facilitated interagency cooperation, is either inactive or nonexistent in contradiction of the recommendations of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Reportedly, however, there is an ad hoc interministerial AML/CFT Committee chaired by the minister of finance and economic development that is expected to coordinate the development of a national AML/CFT strategy pursuant to ESAAMLG recommendations.

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<sup>13</sup> The board comprises senior officials from the justice and finance and economic development ministries, the Ethiopian Federal Police Commission, National Intelligence and Information Services, ERCA, NBE, and FIC.



## AML/CFT PROGRESS IN ETHIOPIA SINCE APRIL 2011

Ethiopia has made some significant progress to improve its legal, organizational, operational, and administrative AML/CFT frameworks. This section will discuss the progress made since the April 2012 publication of the ISSP-CGCC baseline study report.

### AML/CFT STRATEGY

Policies and strategies form a clear road map on establishing AML/CFT frameworks and implementing robust and comprehensive systems that comply with international standards and obligations to prevent and counter money laundering and terrorist financing. A clear AML/CFT policy and strategy helps guide not only the style of the FIU, but also its functions and roles and its collaboration with regulators, relevant agencies, and other stakeholders and partners. International experiences suggest that AML/CFT policies should outline guiding principles of engagement and collaboration, leadership, risk management, efficiency, and effectiveness of control mechanisms, law enforcement, and operational actions.<sup>14</sup>

The FIC has drafted an AML/CFT strategic plan that is under review by the FIC interministerial board responsible for the overall strategic leadership of the AML/CFT initiative.<sup>15</sup> This plan is a milestone in the fight against money laundering and terrorist financing in Ethiopia, although it has not been officially endorsed by the board. Ethiopia has successfully negotiated with the World Bank for the provision of technical assistance, including conducting an assessment of money laundering and terrorist financing vulnerabilities and the general Ethiopian AML/CFT framework. In interviews, FIC officials verified that the World Bank and the FIC have agreed on a concept note setting a clear timeline and outlining the scope of assistance and details of the activities scheduled to commence in January 2013.

### LEGISLATION, REGULATIONS, AND PROCEDURES

A comprehensive and more detailed draft AML/CFT law that reportedly incorporates international standards has been finalized with the technical support of and review by UNODC personnel. The draft legislation remains under the review of the Council of Ministers, but FIC leadership expects that the parliament will enact the law before the end of 2013. The FIC organized a consultative meeting on the draft law with stakeholders such as the financial sector,

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<sup>14</sup> See FATF, *International Standards on Combating Money Laundering and Financing of Terrorism and Proliferation: The FATF Recommendations*, February 2012, no. 2, <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%20%28approved%20February%202012%29%20reprint%20May%202012%20web%20version.pdf> (hereinafter revised FATF Recommendations); U.S. Department of the Treasury, "2007 National Money Laundering Strategy," 2007, <http://www.treasury.gov/resource-center/terrorist-illicit-finance/Documents/nmls.pdf>; UK Treasury, "Anti-Money Laundering Strategy," October 2004, <http://www.hm-treasury.gov.uk/media/D57/97/D579755E-BCDC-D4B3-19632628BD485787.pdf>.

<sup>15</sup> The draft strategic plan is limited to three years so as to be aligned with the remaining years of the national strategy, which is known as the "Growth and Transformation Plan" and was drafted under then-Prime Minister Meles Zenawi.

designated nonfinancial businesses and professions (DNFBPs), regulatory bodies, law enforcement agencies, the judiciary, and other relevant public authorities.

One of the experts who drafted the new law said that it includes detailed provisions adequately criminalizing money laundering and terrorist financing and includes comprehensive provisions on

- Politically Exposed Persons;
- restraining property;
- enhancements of the power of the FIC in the fight against money laundering and terrorist financing and collaboration with relevant domestic and foreign agencies;
- procedures to identify, freeze, and confiscate terrorist assets;
- issues related to DNFBPs;
- preventive measures such as customer identification and CDD provisions;
- a revised and more inclusive definition of “serious crimes”; and
- definitions of terms in order to avoid cross-referencing with other laws, making it self-sufficient and compliant with the revised FATF Recommendations.<sup>16</sup>

The FIC has also finalized drafting detailed regulations that provide expanded explanations of provisions, processes, and technical procedures on implementation of the law once enacted.

The new draft law continues to use the concept of “serious crimes” but proposes to significantly reduce the length of incarceration as punishment in defining the meaning of serious crime for the purpose of money laundering. When enacted the new law will help to enable the AML/CFT legal regime to expand the scope of predicate crimes and the application of AML/CFT measures.

The critical challenge in this regard relates to the pending adoption of the law by parliament and whether the draft bill will be adopted in its entirety. Further delays in enacting and implementing the law will set back the final drafting and application of detailed regulations and procedures. This postponement will inevitably add to the concern of the international community and likely lead to the publication of additional statements by the FATF highlighting Ethiopia’s strategic deficiencies on AML/CFT issues, such as the one from October 2012:

[D]espite Ethiopia’s high-level political commitment to work with the FATF to address its strategic AML/CFT deficiencies, Ethiopia has not made sufficient progress in implementing its action plan, and certain strategic AML/CFT deficiencies remain. Ethiopia should continue to work on implementing its action plan to address these deficiencies, including by: (1) adequately criminalising money laundering and terrorist financing; (2) establishing and implementing an adequate legal framework and procedures to identify and freeze terrorist assets; (3) ensuring a fully operational and effectively functioning Financial Intelligence Unit; and (4) implementing

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<sup>16</sup> FIC head of legal services, interview with author, Addis Ababa, 19 September 2012.

effective, proportionate and dissuasive sanctions in order to deal with natural or legal persons that do not comply with the national AML/CFT requirements.<sup>17</sup>

Delays may also negatively influence Ethiopia's full-fledged membership in the ESAAMLG in the near term.

Officials expressed confidence that the ruling party's collective style of leadership; the smooth transition of power within the party; the new prime minister's and the ruling party's commitments to pursue the initiatives of the late premier, Meles Zenawi; and the promised continuity of the cabinet will guarantee further AML/CFT efforts.<sup>18</sup>

On 20 March 2012, Ethiopia acceded to the International Convention for the Suppression of Financing of Terrorism, which should put the country in compliance with the special recommendations of FATF. Coupled with other adjustments, Ethiopian officials believe accession to the Convention generally enhances the CFT legal regime.

The lack of standardized high-level security features for national ID cards is among the challenges to the implementation of effective CDD measures. Toward this end, Ethiopia has enacted new legislation outlining provisions about the registration, issuance, and control of national ID cards for all Ethiopians over the age of 18.<sup>19</sup> The national ID card will have the bearer's photograph and fingerprint and a unique national ID number. FIC senior executives confirmed that a project to design, print, and deliver secured national ID cards under the authority of the Immigration and Nationality Affairs Main Department has officially been launched.<sup>20</sup>

## **CAPACITY BUILDING**

Comprehensive and robust AML/CFT measures require multidisciplinary capacities and capabilities. The AML/CFT initiative has been challenged by a lack of expertise, appropriate systems and institutions, and enabling facilities. The financial sector, intermediaries, regulatory bodies, and the relevant authorities suffer from a poor level of understanding of money laundering and terrorist financing concepts and of the impact on the trust in and stability, integrity, and transparency of the financial system and its business relations with the global system and on Ethiopian national security. International corresponding banks, through which Ethiopian banks engage in global trade and financial transactions, are pressured to align with and implement global AML/CFT tools and compliance standards. Recognizing their limitations, Ethiopian banks and the FIC, along with other stakeholders and partners, have taken important actions to enhance overall awareness of, and develop capacities to address, the threats and risks of money laundering and terrorism financing in the country.

<sup>17</sup> FATF, "FATF Public Statement," 19 October 2012, <http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions/documents/fatfpublicstatement-19october2012.html>.

<sup>18</sup> Hailemariam Desalegn, interview by Ashebner Getnet, ETV, 3 December 2012, [http://www.youtube.com/watch?v=Gf3lyYVMZ30&feature=player\\_detailpage](http://www.youtube.com/watch?v=Gf3lyYVMZ30&feature=player_detailpage) (translation by author).

<sup>19</sup> *Proclamation No. 760/2012: A Proclamation on the Registration of Vital Events and National Identity Card*, *Federal Negarit Gazeta*, no. 58 (22 August 2012), p. 6497.

<sup>20</sup> *Ibid.*, p. 6513 (art. 57(2)).

**Expertise and awareness raising.** In 2012 the FIC in collaboration with UNODC and the Ministry of Justice has facilitated and delivered general awareness-raising training for law enforcement officers, judiciary personnel, bankers, and participants from various governmental organizations.

- The FIC facilitated training for 17 senior bank officials on basic money laundering and terrorist financing concepts, compliance management, and reporting procedures.
- The FIC facilitated training for 93 police investigation officers on the concepts, features, processes, impact, investigation techniques, and case management of money laundering and terrorist financing and related crimes.
- The Ministry of Justice presented a “Train the Trainers” program for more than 20 trainers, including police investigators, public prosecutors, judges, legal advisors, bankers, and FIC officers, on the techniques of investigation, case management, and prosecution of money laundering and terrorist financing crimes.
- UNODC delivered analysis skills training to experts from the FIC, Federal Police, ERCA, Federal Ethics and Anti-Corruption Commission, and Ministry of Justice.

A majority of the banks, in collaboration with the FIC, have trained their staff on AML/CFT issues. According to the FIC, 988 branch managers and 6,344 officers from 11 banks have been trained in 2012 (see table).<sup>21</sup> Training included exploration of concepts such as technical skills enhancement, legislation, and managerial and administrative aspects such as

- concepts and characteristics of money laundering;
- awareness of the negative impacts of money laundering and terrorist financing on national security and the economy;
- AML/CFT legislation, international standards, and requirements;
- KYC features and other technical aspects of CDD measures;
- compliance management;
- suspicious transactions identification and reporting tools and techniques; and
- the role of banks and their staff in preventing and countering money laundering and terrorist financing.

The Ethiopian Institute of Financial Studies (EIFS), mainly supported by the NBE, provides regular as well as requested training for professionals in the financial sector. The AML topic is listed among the key content areas of one of the four-day courses, but CFT and related crimes are not mentioned in this course. There is no clarity on how detailed the AML topic is covered or any record of training delivered in 2012. Nevertheless, the institute, with solid experience in the financial sector, is a strong resource for professionals and practitioners. All banks provide basic introductory courses for new recruits, consequently centralizing and streamlining basic AML/CFT training for relevant professionals. Yet, public awareness and the technical expertise of the authorities still remain weak in spite of the enhanced performance of the FIC, Ministry of

<sup>21</sup> FIC deputy director-general, interview with author, Addis Ababa, 19 September 2012; FIC head of legal services, interview with author, Addis Ababa, 19 September 2012.

Justice, banks, and other actors working toward enhanced capacity building and awareness raising.

**TABLE: ETHIOPIAN BANK BRANCH MANAGERS AND OFFICERS TRAINED, 2012**

INSTITUTION	BRANCH MANAGER	OFFICER	TOTAL PER INSTITUTION
Berhan International Bank	2	0	2
Commercial and Business Bank	157	193	350
Commercial Bank of Ethiopia	469	5,425	5,894
Dashen Bank	69	223	292
Lion International Bank	41	205	246
Nib International Bank	45	70	115
Oromiya Cooperative Bank	55	26	81
Oromiya International Bank	51	129	180
United Bank	77	39	116
Wegagen Bank	20	19	39
Zemen Bank	2	15	17
<b>TOTAL</b>	<b>469</b>	<b>6,344</b>	<b>7,332</b>

Source: FIC

**Systems and procedures.** In collaboration with the Information Network Security Agency (INSA),<sup>22</sup> the FIC has developed, tested, and installed its own software capable of receiving STRs and CTRs online, as well as analyzing cases and disseminating reports. So far, all banks except two have subscribed to and used the software to submit their reports online. The remaining two banks were expected to subscribe as of December 2012. INSA is developing and providing basic infrastructure, technical training, and maintenance services to the FIC, NBE, and some reporting agencies. In addition, INSA is conducting a study with the FIC and NBE on upgrading the software to make it fully comprehensive and compliant with international standards, covering all aspects of AML/CFT reporting, analysis, dissemination, and data management systems. The FIC has designed and implemented a procedural manual that established standards for reporting on and disseminating STRs and CTRs and has referred cases for criminal or administrative investigations.

Effective AML/CFT efforts need detailed standard operating procedures (SOPs) for effective basic operations, including data and information management.<sup>23</sup> Similarly, SOPs are needed for inspections, compliance supervisory visits, investigations, threat and risk assessments, referrals, information and intelligence sharing with other FIUs or relevant authorities, and identification and freezing of terrorist assets and other businesses.

<sup>22</sup> INSA is the public agency responsible for the protection, maintenance, and development of applied software and network security.

<sup>23</sup> SOPs are detailed operational guidelines and step-by-step procedures that should flow directly from overall strategic policy and relevant legal provisions.

## OPERATIONAL MEASURES

The FIC has further enhanced its operational capacities by providing awareness-raising seminars and receiving, analyzing, and disseminating STRs and CTRs manually. The FIC has been receiving and analyzing CTRs and STRs since 10 January 2012 and, as of 30 November 2012, received 221 STRs. Ninety AML/CFT cases have been detected and analyzed, of which 11 have been referred to the Crime Investigation Department of the Ethiopian Federal Police for further investigation, two are currently under investigation by the Federal Ethics and Anti-Corruption Commission, and eight are under investigation by the ERCA. In three high-level cases, the FIC reported that the federal state prosecutor has opened charges against the suspected offenders, and trials are underway. The FIC has more cases ready to be referred to the police for further criminal investigation, but according to FIC officials, there is a concern that the police have limited capacity to handle the increasing caseload.

According to the director of the Center for Examination and Analysis Directorate, the newly introduced software has better facilitated the online receipt and analysis of the reports. Some experts in the field, however, suggest that the FIC should consider using off-the-shelf software packages, such as the UNODC GoAML software. The CTR volume is growing and, within 11 months, has totaled almost 607,000, with a monthly average number of about 55,000.

FIC officials stated that the remaining banks that did not commence online reporting are expected to subscribe soon. In this regard, the FIC is advantageously positioned to encourage the banks to use the system. The FIC should provide a clear deadline for all reporting entities to subscribe to the computerized system and enforce this deadline strictly.

Reporting entities other than banks with legal obligations under the AML law are not reporting on suspicious transactions and cash transactions. To some extent, the ERCA is sharing reports on offenses related to international currency transactions involving foreign or local currency and subsequent seizures for exceeding the transaction limit set by the NBE. The ERCA role is important as a majority of the “dirty money” suspected to be laundered through trade-based mechanisms in Ethiopia may be detectable by them.<sup>24</sup> Licensing authorities and other trade and investment regulatory agencies are also important, although these entities are not legally required to provide reports regularly to the FIC. Instead, these agencies provide documents, reports, and data when the FIC and law enforcement agencies request them to analyze and investigate or establish cases.

According to the NBE, as required by the CDD directive and other instruments, banks must have official AML/CFT policies and operational procedures on CDD and KYC matters. A number of banks, including Lion International Bank and Dashen Bank, have confirmed that they are complying with the requirements. Furthermore, all banks have compliance units at the managerial level that oversee AML/CFT measures directly. This is an important step in professionalizing the various practitioners involved in this field into one network working under unified codes and operational procedures.

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<sup>24</sup> See ISSP-CGCC AML/CFT baseline study, pp. 15–20.



## **NATIONAL, REGIONAL, AND INTERNATIONAL COOPERATION**

Money laundering and terrorism financing are multisectoral and cross-border challenges that require interagency and interstate collaboration and coordination. Significant segments of money laundering and terrorist financing activity in Ethiopia are funneled through trade-based and commercial schemes using money gained from criminal activities or earmarked for other criminal purposes. Criminals mostly exploit and manipulate the weak interagency cooperation among organizations to disguise and move illicit proceeds. The trade and financial system is therefore extremely vulnerable to trade-based money laundering and terrorist financing methods of operation. Trade-based money laundering and terrorist financing activity capitalizes on the weak transborder cooperation by using false invoicing, underinvoicing and overinvoicing, and other forms of dishonest and illegitimate trade practices to disguise the movement of illegal funds and to legitimize them. The financial, trade, licensing, and regulatory, law enforcement, and border protection sectors and the DNFBPs are important for preventing and tackling the menace through effective coordination and collaboration.

To counter trade-based terrorist financing and money laundering mechanisms, it is essential that AML/CFT frameworks enhance national interagency, regional, and international cooperation, including intelligence and information sharing, mutual legal and technical assistance, and other law enforcement tools designed to address these methods. Such cooperation can include

- interagency collaboration with law enforcement agencies and regulatory bodies, particularly involving the challenges raised by the prevalence of cash-based economies, in Ethiopia and regionally;
- inter-FIU technical cooperation and information and intelligence sharing;
- collaboration with concerned international bodies such as the relevant UN entities, FATF ICRG, ESAAMLG, and so on;
- cooperation with the private sector, including the financial sector, DNFBPs, and chambers of commerce; and
- cooperation between the FIC and domestic law enforcement, regulatory, and other relevant authorities.

Ethiopia has made significant progress in its efforts to demonstrate cross-border cooperation on AML/CFT issues and has applied for full membership in the ESAAMLG. The FIC is closely collaborating with the ESAAMLG, including by providing self-assessment reports. In addition, Ethiopia is working with UNODC, the World Bank, and other international entities on technical assistance matters. FIC authorities confirmed that they are working closely with FATF and the ICRG on implementing the revised FATF Recommendations and plan of action. The FIC produces and delivers progress reports regularly to FATF and the ICRG in compliance with the reporting requirements.

The FIC reported that the fuzzy demarcation of roles among the central bank, criminal investigation units, and prosecutors has been resolved through recently concluded discussions that resulted in a draft MOU clarifying the common and particular roles and responsibilities

among a number of key stakeholders in the country. Outreach and cooperation with Ethiopian banks is positive but not particularly strong, formal, or sustained. Outreach and cooperation with other reporting entities, including the chambers of commerce and sectoral associations, and with the business community is weak or nonexistent.

### **ADMINISTRATIVE MEASURES**

Administrative measures in this context consist of FIC structural, organizational, personnel, resource, and facility issues. Until late 2011, the FIC did not have a professional staff except for a director-general and a deputy and was physically situated in two small offices within the NBE. Now, the FIC has secured its own office space and recruited the majority of its staff. Basic information technology infrastructure is in place. Despite this impressive progress in a short amount of time, important requirements such as policy, planning, and research functions; public relations, education, risk management, and compliance roles; and money laundering and terrorist financing prevention capacities are missing. FIC leadership believes that the missing expertise and functionality can be incorporated within the existing structure and is determined to fill gaps through ongoing employment and training. These developments demonstrate the increasing political commitment and determination for continued development and progress.



## REMAINING AML/CFT GAPS

Ethiopia has made real and measurable progress since April 2011 in strengthening its AML/CFT regime. Significant gaps still exist and must be bridged, however, before Ethiopia can provide effective AML/CFT responses to national vulnerabilities and meet international standards.

**A national strategy, policies, and ESAAMLG accession.** As suggested by the revised FATF Recommendations, AML/CFT frameworks should be guided by a national AML/CFT strategy and policy.<sup>25</sup> A national strategy and policy would be a result of assessments of money laundering and terrorist financing vulnerabilities, threats, and risks and analysis of national AML/CFT frameworks and their capacities. Ethiopia, however, has neither conducted a national assessment nor has a national strategy in place. Moreover, the FIC has limited technical capacity and experience in carrying out a national assessment and formulating a corresponding national strategy that could serve as a road map for an action plan, including designing operational procedures and systems, developing detailed rules and regulations, and framing cooperation schemes.

The absence of subsequent detailed policies and guidelines on particular issues, such as due diligence regarding potential investment funds, outreach with law enforcement and regulatory authorities, information and intelligence sharing, and privacy and other operational practices, has limited the implementation of an effective AML/CFT regime in Ethiopia. Further delay in approving and implementing the three-year strategic plan as required by the ESAAMLG can affect AML/CFT efforts in general and may further hinder Ethiopia's full accession to the ESAAMLG.

**Legislation, rules, and regulations.** Currently, the incomprehensiveness of the existing AML law, in particular its lack of detailed rules, regulations, and directives, is a key gap that is likely to be resolved by the new draft law's ratification. The new law remains under consideration, but delays in enactment pose a real challenge to the FIC in its endeavor to implement effective and efficient AML/CFT measures. The FIC is awaiting the passage of the law in order to develop detailed rules, regulations, directives, and standards that provide further guidance for operations and other corporate routines.

**Organizational cooperation.** According to revised FATF Recommendations no. 2, Ethiopia should have a mechanism to facilitate cooperation and coordination on AML efforts nationally among policymakers, the FIC, law enforcement, regulatory bodies, and other relevant authorities. Moreover, the ESAAMLG recommends that each state establish a national AML/CFT task force. Ethiopia has a rather ad hoc AML/CFT national committee established by the prime minister and chaired by the minister of finance and economic development.

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<sup>25</sup> Revised FATF Recommendations, no. 2.

The FIC has fostered positive working relationships with policymakers and law enforcement agencies, limited regulatory bodies, and supervisory agencies; but there is no official or formal mechanism in place, supported by a policy document or guidelines, outlining clear roles and responsibilities. Similarly, the FIC has a forum for meeting with banks and certain regulatory and licensing agencies; but the outreach is limited to specific sectors, particularly to formal banks, and does not include insurance companies, licensing agencies, and primarily cash-based sectors of the economy, such as real estate. The FIC does not have an established outreach mechanism to the nonprofit sector, nor does the regulatory agency for charities and societies have the capacity to apply the AML/CFT regime. Moreover, microfinance institutions, insurance companies, and their intermediaries remain outside the scope of FIC oversight mechanisms.

Awareness about the threats posed by money laundering and terrorist financing and their consequences still remains weak among the general public, public servants and practitioners within the financial sector, DNFBPs, and relevant authorities. Weak institutional capacity and a lack of technical expertise is affecting the AML/CFT regime in Ethiopia and limiting its progress trajectory.

**Standard operating procedures.** The FIC does not have detailed SOPs for basic operations, including data and information management (collection, analysis, retention, and dissemination); inspections; compliance supervisions; investigations; threat and risk assessment; referrals; information and intelligence sharing with other FIUs or relevant authorities; and identification and freezing of terrorist assets. The FIC has a shortcoming in receiving all-inclusive STRs, CTRs, and other compliance reports from all legally required entities. The FIC's inability to receive reports from microfinance institutions, insurance companies, trade and investment regulatory and licensing authorities, and other DNFBPs is significantly hampering ongoing AML/CFT efforts. The Ethiopian economy is cash based and highly informal, and the roles of DNFBPs remain important.

The AML/CFT regime's operational effectiveness and efficiency is critically affected by limited capacity within the FIC, law enforcement agencies, regulatory bodies, and the judiciary. The FIC and law enforcement and regulatory agencies suffer from limited capacities primarily with regard to the technical skills required to analyze reports, detect and investigate suspected cases, apply risk management principles, and carry out inspections and supervisory visits of the financial sector and DNFBPs.

## SUGGESTED ENTRY POINTS AND THE WAY FORWARD

Short- and long-term measures can be taken to address the challenges that the Ethiopian AML/CFT regime is facing. It is important to develop and implement capacity-building-oriented approaches that recognize the specific political, economic, and social aspects of the country and the IGAD subregion. The international community, donors, and policy organizations are encouraged to help Ethiopia meet and sustain implementation of those standards in the context of its own national and subregional realities by prioritizing local ownership and engagement.

### SHORT-TERM GOALS AND IMMEDIATE ENTRY POINTS

The AML/CFT regime, notably the FIC, should focus on these several actions and priorities immediately and through 2013.

#### **Formulation of a national strategy and corresponding policies.**

- Conduct comprehensive national money laundering and terrorist financing vulnerability and threat assessments via adaptation of standard international tools. AML/CFT strategic policy requires a complete assessment of vulnerabilities to and threats and risks posed by money laundering, terrorist financing, and related crimes; existing AML/CFT capacity and capability; and other features of the current environment. AML/CFT strategy ought to address established and emerging threats and techniques of money laundering and terrorist financing continuously and should be reviewed regularly. AML/CFT policy and strategy can serve as an excellent tool for building shared values and common understanding among all actors of the AML/CFT initiative, in particular the FIC. The FIC should fully own and coordinate this assessment mission, while international organizations and development and policy partners provide Ethiopia with technical and financial assistance.
- Formulate and implement a politically endorsed national AML/CFT strategic policy. The national strategic policy should be compliant with the revised FATF Recommendations, adapting a risk-based approach and ESAAMLG guidelines, while addressing national and regional contexts.

**Legislation.** Expedite the ratification of the new AML bill and develop and implement detailed regulations, directives, and working systems that support the application of the law in compliance with international standards and requirements.

**Controlling and reporting.** The FIC has to work incrementally toward an all-inclusive reporting mechanism that enables all entities to regularly provide reports as provided by the law. Such a mechanism must

- engage and raise awareness among reporting entities and other stakeholders;
- facilitate basic reporting infrastructures;
- provide technical training on identifying and reporting suspicious transactions;
- allow for compliance inspections and supervision by the FIC and NBE; and
- encourage a sense of vigilance toward money laundering and terrorist financing and related crimes and their operating methods.

**Capacity building.**

- Continue and fortify capacity building for all relevant authorities (law enforcement, investigative, and regulatory) following clearly set priorities on scope, agency, and profession.
- Strengthen general and specialized awareness-raising schemes for the private sector, nonprofit organizations, media, and the public about the nature, methods, and impact of money laundering and terrorist financing and the legal obligations and consequences of noncompliance.
- Optimize the AML/CFT information technology structure by developing a comprehensive system capable of meeting international standards or adopting UNODC's GoAML software in order to support the full operationalization of AML/CFT regime.

**Cooperation and coordination.**

- Formulate and implement institutionalized interagency cooperation and coordination and information and intelligence sharing platforms with clear roles and responsibilities for each relevant authority.
- Establish a formal forum where relevant authorities engage the private sector and other nonstate actors.
- Set up a permanent national AML/CFT task force with clear roles and responsibilities in compliance with regional and international standards.

**International cooperation and assistance.** International organizations, particularly the World Bank, the International Monetary Fund (IMF), FATF, relevant UN entities, and other donor institutions, can assist the AML/CFT initiative by

- conducting mutual assessments as a basis for formal review and possible rescission of the FATF statement that identifies Ethiopia as a jurisdiction with strategic AML/CFT deficiencies that has not made significant progress in addressing those deficiencies;

- providing technical and capacity-building assistance in institutionalizing, strengthening, and sustaining the AML/CFT measures; and
- working with Ethiopian officials so that FATF and the ICRG and other relevant international bodies recognize and publicize improvements to motivate further efforts to address gaps and deficiencies.

## **LONG-TERM GOALS**

In two to five years, Ethiopia, in collaboration with international organizations and donors, should carry out the following actions, and the FIC should play a central role in the execution of these tasks.

### **Regulation and supervision.**

- Regulatory bodies and the FIC, possibly in collaboration with the NBE, should consistently conduct inspections and ensure compliance under the law and by observation of international standards, including balancing control and facilitation and maintaining privacy standards, transparency, and accountability.

### **Capacity building.**

- A regular specialized training curriculum should be designed and used. The curriculum should be streamlined as law enforcement, investigative, financial and banking, and tax and excise training schemes are already available in various settings, such as police training institutions, the EIFS, Ethiopian Civil Service University, and the Justice Sector Professionals Training Institute.
- The FIC should establish enhanced systems and specific SOPs in line with contemporary technologies and money laundering and terrorist financing techniques and their methods of operation.

### **Regional and international cooperation.**

- Strengthen relations and cooperation with the ESAAMLG toward full membership and carry out mutual assessments.
- Enhance dialogue and collaboration with the World Bank, FATF, IMF, relevant UN agencies, and other institutions for access to technical assistance. Communicate and create better understanding of achievements in response to international obligations and recommendations. Above all, successfully address the issues noted in FATF deficiency statements.
- Establish formal cooperation and collaboration with other FIUs and strengthen information and intelligence sharing, legal assistance, capacity building, and experience sharing to combat transborder money laundering and terrorist financing.
- Enhance technical knowledge of relevant and ratified international instruments and strengthen their practical application.

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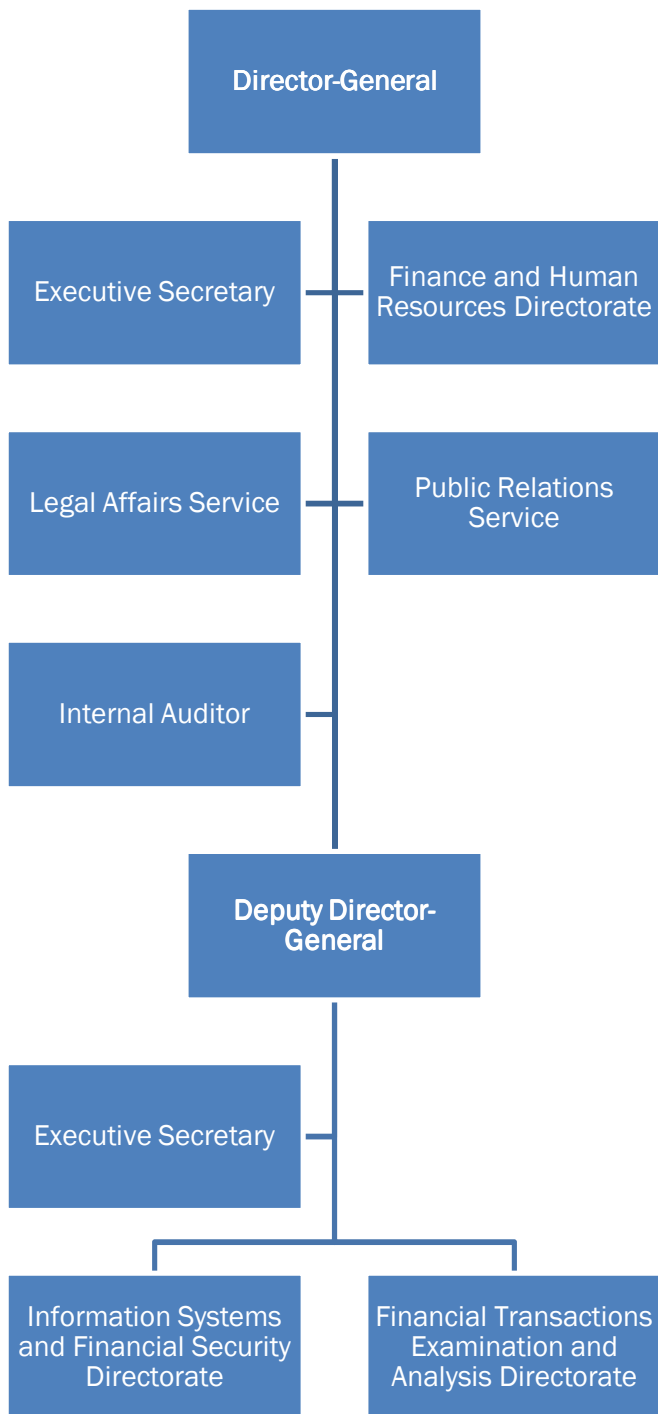
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**ANNEX: FIC ORGANIZATIONAL STRUCTURE**



CGCC works to improve counterterrorism cooperation and capacity through collaborative research and policy analysis and by providing practical advice. CGCC develops innovative counterterrorism programming and training and assists key stakeholders to develop sustainable solutions to preventing terrorism. CGCC is working to improve intergovernmental cooperation at the global, regional, and subregional levels; support community-led efforts to counter violent extremism; ensure respect for human rights and the rule of law; and empower civil society and victims of terrorism to speak out. As transnational threats evolve, CGCC is also working to foster a new generation of holistic, rule of law-based responses to organized crime and other forms of transnational violence.

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