Ethiopia

Section 1 - Executive Summary

Grey Lists: Ethiopia is not listed by the US as a Country of Primary Concern for ML & FC, and was removed by FATF in 2019 and by the EU in 2020 from so called “Grey” lists.

NRA: Concluded in 2016, identifying 23 criminal activities as a major source of illicit money, with highest threats coming from human trafficking and migrant smuggling, corruption, goods smuggling (contraband), illegal hawala, fraud & tax evasion.


Organised Crime: Ethiopia has a criminality score of 4.58 and is ranked 37/54 in Africa and 7/9 in East Africa with a “Moderately Low-Criminality” rating in the OC Index. The prevalent markets with highest criminality scores are human smuggling (6/10) human trafficking (6/10), and arms trafficking (6.5/10). On groups, “Foreign Actors” (7/10), received the highest score, followed by “Criminal Networks” (6.5) and “State-Embedded Actors” (3.5/10) and “Mafia Style Groups” (2/10).

Modern Day Slavery: US Trafficking in Persons - 2020 Tier 2 - GSI estimated that 614,000 modern day slaves live in Ethiopia reporting an incidence rate of 6.1/1000 people, and a government response rating of “CCC”.

Sanctions & Terrorism: No Sanctions are targeted against the country. For proliferation, Ethiopia is a “Tier 2” PPI Index country, representing a “medium” threat and a "low " controls score of 374/1,300. Terrorism - GTI 5.345, 29/136 “Medium” impact.

Indices: The Mo Ibrahim Index of African Governance for 2018 rated Ethiopia at an overall governance level of 46.5 out of 100 (35/54 African countries) & Freedom House Freedom in the World Report 2019 - score of 19/100, categorised “not free”. However, the International IDEA's Global State of Democracy has re-categorised Ethiopia as a “hybrid regime” from “non-democracy”.

Response & Resilience: Ethiopia scores high for resilience, ranked 6/54 in Africa and 1/9 in East Africa in the OC Index. Ethiopia’s mutual evaluation report (MER) was conducted in June 2015, and the most recent follow-up report and re-rating was done in 2019. Ethiopia has been removed from the FATF watchlist in June 2019, however, the country is still under enhanced follow up.

Overall Ratings: Ethiopia is rated overall “Mod - High” risk, 4th highest score out of 10 Eastern African Countries and 20th out of 40 in FCN’s SSA Threat Assessment with a score of 41/100, but with an “Improving” trend.

FCN Rating: “Mod-High” Risk 41/100 Trend “Improving”
Ethiopia

**Capital & Population:** Addis Ababa & 109 million people

**Prime Minister:** Abiy Ahmed (since 2018)

**GDP:** US$84.3 billion (2018) (5% of SSA GDP)

**Economic Sector Breakdown:**
- Agriculture (35%)
- Industry (22%)
- Services (44%)

**Exports:** US$323 billion (2017 est.) coffee, oilseeds, vegetables (incl Khat), gold, flowers, live animals, leather and meat to Sudan 23.3%, Switzerland 10.2%, China 8.1%, Somalia 6.6%, NL 6.2%, US 4.7%, DE 4.7%, KSA 4.6%, UK 4.6% (2017)

**Imports:** US$15.59 billion (2017 est.) machinery and aircraft, metal products and electrical materials, petroleum, motor vehicles, chemicals and fertilisers from China 24.1%, KSA 10.1%, India 6.4%, Kuwait 5.3% & France 5.2% (2017)

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**Ethiopia Higher (Inherent) Risk Factors**

**Customer Risks**
- Customers with elevated exposures to criminal activities such as assets trafficking, smuggling, wildlife & human trafficking & people smuggling, fraud, terrorism & along with corruption (e.g. PFAs) which also helps facilitate these crimes & tax evasion as a high risk concern also - NRA

**Sector Risks**
- Banks (in particular retail and correspondent banks), Bureau de Change, MSBs, and DNFBPs
- Informal Sectors
- Hawala

**Geography Risks**
- Somalia & Eritrea (people smuggling)
- Third Countries
  - Yemen & Saudi Arabia (people smuggling)
  - China & Vietnam (wildlife products)

---

**Score:** 41/100 “Mod - High” FCN Risk Rating

**Rank:** 20/40 SSA - 4/10 Region EA

**Proceeds / Laundering**
- range 7.5% - 10.5% GDP / 40 - 50% of Proceeds

**Organised Crime**
- range up to approx 26 - 28% of Proceeds

**Costs of Corruption**
- range up to approx 10 - 15% of Proceeds

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**Ethiopia - Threat Assessment - 2020**
Section 3 - Country Information

People & Geography: Ethiopia is a land-locked country located in the Horn of Africa surrounded by six countries: Eritrea, Djibouti, Somalia, Kenya, Sudan, and South Sudan. Ethiopia is the second most populous country in Africa with a population of 109 million, of which 903,000 were refugees (in 2019) with 1.3 million immigrants / 872,00 emigrants1.

Recent History & Leadership: Ethiopia is Africa's oldest independent country. Apart from a five-year occupation by Italy, it has never been colonised. It has a unique cultural heritage, being the home of the Ethiopian Orthodox Church - one of the oldest Christian denominations - and a monarchy that ended in 1974. Drought and civil conflict left Ethiopia in a state of turmoil under a Marxist dictatorship from the fall of the monarchy until 1991, when the rule of Meles Zenawi brought a degree of stability. Since 2018, Prime Minister Abiy Ahmed launched a campaign of political liberalisation at home and sought to end the dispute with Eritrea2.

Economy & Trade: Ethiopia has a GDP of US$84 billion (2018), representing 0.1% of global GDP, & 5% of SSA GDP. Ethiopia's economy relies heavily on its mining and agricultural sectors. Agriculture represents approx 35%, industry 22%, & services 44% (2017). Exports of US$3.23 billion (2017) - coffee, oilseeds, vegetables (incl Khat), gold, flowers, live animals, leather and meat to Sudan (23.3%), Switzerland (10.2%), China (8.1%), Somalia (6.6%), NL (6.2%), US (4.7%), DE (4.7%), KSA (4.6%), UK (4.6%) - 2017. Imports of US$15.59 billion (2017) - machinery and aircraft, metal products and electrical materials, petroleum, motor vehicles, chemicals and fertilisers from China (24.1%), KSA (10.1%), India (6.4%), Kuwait (5.3%) & France (5.2%) - 20173.

Environment: According to the Environmental Performance Index4 2018, Ethiopia scores 44.78/100 and is ranked 141/180 countries. Environmental issues include soil erosion & land degradation, deforestation and forest degradation, water scarcity, biodiversity loss, and various types of pollution5.

Tourism: Travel and tourism in Ethiopia generated US$6 billion in 2019, employing 1.96 million Ethiopians (7%) and representing 6.7% of Ethiopia's GDP. Main tourists come in from US (17%), UK (5%), China (5%) Germany (4%) & Italy (4%), with outbound tourists going to; Lebanon (20%), Sudan (18%), China (11%), Saudi Arabia (7%) & France (7%).6

Finance: In Ethiopia 35% of people (over 15) have bank accounts, 0.3% have a credit card, 0.3% have a mobile money account, & 0.6% make online payments. Internet penetration is at 19% via 21 million internet users and there are 47 million mobile connections or 41% of people are connected by mobile7. Foreign remittances received are 0.5% of GDP8.
Section 4 - Country Ratings & Country Threats Heat Map

### Source

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<thead>
<tr>
<th>Source</th>
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<tbody>
<tr>
<td>World Economic Forum</td>
<td>58.3 / 100</td>
<td>Transparency International</td>
<td>27 / 100</td>
<td>Transnational - FPI</td>
<td>Tier 2 “Moderate Threat”</td>
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<td>OC Index Crime Rates</td>
<td>5.68/10</td>
<td>TI &amp; Mitigators</td>
<td>Not Included</td>
<td>Transnational - FPI</td>
<td>Low Controls Threat</td>
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<td>OC Index Criminal Assets</td>
<td>6.72/10</td>
<td>TRACE</td>
<td>71 / 100</td>
<td>Global Terrorism Index</td>
<td>“Moderate” Impact 2.94</td>
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<td>OC Index State Sponsored Actors</td>
<td>3.5/10</td>
<td>Global Military Index</td>
<td>6,571,000</td>
<td>US Dept of State</td>
<td>Yes</td>
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<tr>
<td>OC Index Criminal Networks</td>
<td>6.5/10</td>
<td>No of specialist modern day slaves</td>
<td>414,600</td>
<td>Global Cybersecurity Index</td>
<td>2018</td>
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<td>OC Index Criminal Actors</td>
<td>7/10</td>
<td>Global Military Index</td>
<td>No “CCC” Rating</td>
<td>Ms Behavioural Index</td>
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<td>OC Index Malware &amp; Cybersecurity</td>
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<td>US Dept of Labor</td>
<td>41.5%</td>
<td>Heritage Foundation</td>
<td>Economic Freedom Index</td>
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<td>OC Index Drugs Traffordking</td>
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<td>US Dept of State</td>
<td>No Rating</td>
<td>Freedom House</td>
<td>Freedom Index</td>
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<tr>
<td>OC Index Arms Traffordking</td>
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<td>IOM Migration</td>
<td>1,300,000 - 570,000</td>
<td>Bank AML Index</td>
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<td>OC Index People Smuggling</td>
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<td>Federal Unregistered and Unregulated</td>
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<td>FATF Supporter Members</td>
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<td>OC Index Human Trafficking</td>
<td>6/10</td>
<td>EU Listing of Countries for Illegal Fishing</td>
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<td>Internal Member</td>
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<td>OC Index Illegal Traffic</td>
<td>3.5/10</td>
<td>US Dept of State</td>
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<td>Asset Confiscations over 1% of Proceeds</td>
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<td>OC Index Illegal Wildlife</td>
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<td>Environment Performance Index</td>
<td>43.41/100</td>
<td>Country National Risk Assessment</td>
<td>2016 Published</td>
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<td>OC Index Illegal Mining</td>
<td>3/10</td>
<td>EXPO &amp; OECD</td>
<td>0.022 (2016)</td>
<td>Financial Information Sharing Partnership</td>
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<td>OC Index Bribery</td>
<td>6/10</td>
<td>Tax Justice Network</td>
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<td>US Dept of State - FSCA 2015 &amp; Vol 1</td>
<td>Not Listed</td>
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<td>OC Index AML</td>
<td>7/10</td>
<td>EU List of None Co operative Jurisdictions for Tax purposes</td>
<td>% (Commission Regulation 915/20)</td>
<td>European Union List</td>
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<td>OC Index Law Enforcement</td>
<td>4/10</td>
<td>OECD - Global Forum</td>
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<td>FATF Standards</td>
<td>2016 Published</td>
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<tr>
<td>OC Index International Co-operation</td>
<td>7/10</td>
<td>Global Financial Integrity</td>
<td>US$400 million - 16.95% (2016)</td>
<td>FATF Standards</td>
<td>4% 2016</td>
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<td>OC Index Economic Regulatory Environment</td>
<td>6/10</td>
<td>Economist - China - North Korea, Syria, Iran or Cuba</td>
<td>Cuba, Iran &amp; North Korea</td>
<td>FATF Standards</td>
<td>3% 2016</td>
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<tr>
<td>Illegal Drug Dependency / Disorders</td>
<td>46.5/100</td>
<td>0.3%</td>
<td>Economic - CountrySanctions (Comprehensive - UN, US, EU, UN)</td>
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<td>Number Crime Survey 2020</td>
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<td>OIC - Listed Parties</td>
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<td>FATF Counter Measures Strengthening Deficiency List</td>
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### FCN Final Ratings - Ethiopia

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<thead>
<tr>
<th>Source</th>
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<tr>
<td>Financial Crime News Threat Rating</td>
<td>40/100 “Moderate - High” Threat</td>
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<tr>
<td>Financial Crime News Response Rating</td>
<td>41/100 “Moderate” Response</td>
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<tr>
<td>Financial Crime News Crime Rating</td>
<td>41/100 “Moderate - High” Risk</td>
</tr>
</tbody>
</table>

For more details on the scoring model for FCN Ratings contact the Editor-FCN directly for access to the Methodology.

Ethiopia - Threat Assessment - 2020
There are many threats that effect Ethiopia, which reflect its location, resources, the people, crops, wildlife, precious metals and forests. The effect of corruption increases the threats and reduces the ability to effectively respond.
THE ANSWER TO GLOBAL THREATS CONDITIONED BY CRIMINAL MARKETS
Section 5 - Key Threats

In this Section 5, the most important criminal markets, are assessed and summarised based on available sources.

5.1 NRA: Ethiopia finalised its NRA in 2016 and determined its overall money laundering and terrorist financing threat levels as "medium" and "medium-high respectively". The country's vulnerability to money laundering and terrorism financing is overall classified as "medium". The NRA classifies the overall level of risk of terrorism financing as "medium-high", and that of money laundering as "medium".

Overall risk to ML is “Medium” and “Medium - High” to TF & for Vulnerability - Overall as “Medium”
National Risk Assessment - 2016

The NRA identified 23 criminal activities generating financial proceeds, among which tax evasion, human trafficking and migrant smuggling, corruption, goods smuggling (contraband), illegal hawala, and fraud are categorised as sources of high levels of financial crime threats.

Human trafficking, migrant smuggling, corruption, goods smuggling (contraband), illegal hawala, fraud & tax evasion - highest FC threats
National Risk Assessment - 2016

The assessment further recognised that money laundering “…prosecutions and convictions of predicate offences.” The report also identified the lack of any regulation to limit physical possession of currency. For more details on specific threats, see separate sections on individual criminal activities below.

5.2 US INCSR: Ethiopia is not categorised by the US State Department as a "Jurisdiction of Primary Concern" in relation to its reports on Money Laundering and Drug and Chemical Control in its International Narcotics Control Strategy Report (INCSR - 2019), however, Ethiopia was listed as a "Monitored Jurisdiction" in prior INCSR reports until 2016.

Monitored Jurisdiction until 2016
US INCSR

5.3 Corruption: The 2019 Transparency International (TI) Corruption Perceptions Index (CPI) puts Ethiopia as 96th out of 180 countries, with a score of 37 out of 10011.

37 out of 100 score and 96 out of 180 countries for perceptions of corruption
TI’s CPI 2019

This rating shows a slight improvement from the 2018 CPI, in which Ethiopia ranked
114/180 countries and scored 34 /100. A score below 50 is indicative of a country struggling with corruption issues.

In the World Bank’s Governance Indicators-Corruption Control Index of 2018, Ethiopia ranked 37.5 / 100 (where 100 represents the least corrupt country). The Governance Indicators is a dataset that aggregates the findings and reports of various organisations, including the African Development Bank, Gallup World Poll, and World Bank’s own country reports. The 2018 ranking of 37.5 shows a slight decline from the 2013 ranking of 37.91.

Ethiopia also has a “high” risk rating of 71/100 (where 100 represents highest risk) and a rank of 176/200 in the 2018 TRACE Bribery Risk Matrix. The TRACE Matrix equates Ethiopia along with countries such as Cameroon, Sudan, and Laos, which are described as being “characterised by unstable states with quasi authoritarian leaders that do not have the opportunity to enrich themselves using oil”.

5.4 Organised Crime: According to the 2019 African Organised Crime Index, Ethiopia is considered a “Low-Criminality, High-Resilience” country.

In terms of criminality, the OC Index ranks Ethiopia 37/54 African countries, and 7th among 9 of its East African neighbours, with an overall score of 4.58/10.

The prevalent markets with highest criminality scores are arms trafficking (6.5/10) - followed by human smuggling (6/10), human trafficking (6/10), and by the cannabis trade (5/10) & non-renewable resources crimes (illegal mining - 4/10).

The top “Criminal Actor” types in Ethiopia are “Foreign Actors” and “Criminal Networks”, scoring 7 and 6.5 respectively in the OC Index.

5.5 Modern Slavery: In the US Trafficking in Persons (TIP) 2019 report, Ethiopia is listed as a Tier 2 country, (with Tier 1 being the least at risk and strongest response, followed by Tier 2,
Tier 2 Watchlist and Tier 3 most at risk and strongest response. The report recognised the Ethiopian government’s efforts to tackle the problem of human trafficking. Some of the measures taken by the government includes vast awareness creation campaigns, interception of more than 10,000 individuals vulnerable to trafficking, increased prosecution of traffickers, and enhanced oversight of overseas recruitment agencies.

**Tier 2 country**

US Trafficking in Persons Report - 2019

However, the report identified deficiencies in some crucial areas such as internal trafficking, including child sex trafficking, lack of adequate standard procedures for front-line responders, and lack of sufficient victim services to male victims. Ethiopia is reconfirmed as a Tier 2 country in the recently published US TIP 2020 report.

According to the 2019 OC Index, “The country is a source and transit country for men, women and children subjected to forced labour and sexual exploitation. Although awareness of the risks of labour exploitation is reportedly high, severe abuses and sexual exploitation are common. Human trafficking is therefore judged as exerting a significant negative influence on society. Ethiopia is also a country of departure for many migrants, and sophisticated smuggling networks facilitate irregular flows into and out of Ethiopia”.

According to ILAB16, (2019), goods produced from child labour are cattle and gold, with textiles also produced from forced labour, but also including forced child labour. ILAB reported 41.5% of children aged 7-14 (over 10 million children) work, with 31% combining work and school.

According to the Global Slavery Index17. (2018), Ethiopia was ranked 52/167 globally and 30/51 in Africa.

614,000 modern day slaves & government response of CCC

Global Slavery Index - 2018

GSI estimated that 614,000 modern day slaves live in Ethiopia representing an incidence rate of 6.1/1000 people and a government response rating of “CCC”.

In 2012, Ethiopia established a National Council against Human Trafficking and Smuggling which also reported in 201718, which is tasked with spearheading the country’s effort to tackle the problem.

Furthermore, in 2019, Ethiopia enacted a new comprehensive Anti-Human Trafficking and Migrant Smuggling legislation19.

Source and transit country

National Risk Assessment 2016

5.6 People Smuggling: The US TIP, UNODC, IGAD, and the country’s own NRA, all identify Ethiopia as a source and transit country for three migration routes in Africa namely the Northern route to Europe via Yemen and Egypt, the Southern route to South Africa via Kenya, and the Eastern route to Saudi Arabia and other Middle Eastern countries via Djibouti and Somalia.
The 2018 UNODC Report on Trafficking in Persons in Sub-Saharan Africa\textsuperscript{20}, found that in Kenya between 2014 and 2017, the majority of persons convicted of trafficking in persons were citizens of Ethiopia and Somalia.

The OC Index\textsuperscript{21}, states that “Ethiopia, and principally its capital Addis Ababa, acts as the key crossroads for migration out of the Horn of Africa, predominantly from Ethiopia, Eritrea and Somalia.” The OC Index further shows that following the resurgence of the conflict in Yemen, “a significant number of migrants, 85% Ethiopian and 15% Somali as of the first quarter of 2016, are reportedly smuggled or trafficked into Yemen, the majority of whom seek onward transport to Saudi Arabia in search of employment opportunities.”

5.7 Arms Trafficking: The NRA identifies arms trafficking as a “medium” threat to money laundering in Ethiopia. The 2019 OC Index\textsuperscript{22} recognised arms trafficking as the most significant in Ethiopia, scoring the highest (6.5/10) among the identified criminal markets “mainly due to the trafficking of arms across the border with Sudan; and reports that Ethiopia has armed forces in Somalia outside the control of the federal government, in contravention of UN notifications requirements”.

Arms trafficking is the most significant criminal market
Organised Crime Index - 2019

Arms trafficking is a particular concern across Ethiopia’s eastern border and is connected to the country’s military presence as part of an African Union peacekeeping force. Arms trafficking activity has increased in the country over the past few years. It was reported that in 2018, Ethiopian authorities seized 21 machine guns, more than 33,000 handguns, 275 rifles and 300,000 bullets in different parts of the country. In January 2020\textsuperscript{23}, in response to a spike in small arms trafficking, the Ethiopian parliament enacted new gun control legislation, which prohibits the sale and transfer of firearms, establishes a registration and licensing regime for current firearms owners, and increased punishment for violations of the gun control measures from 3-15 years.

5.8 Goods and currency smuggling (contraband): The NRA states that the most frequently smuggled goods into Ethiopia are electronics, garments, perfumes, cosmetics, and armaments. The goods that are smuggled out of the country include coffee, livestock, cereals, animal skins, and fuel. The total value of contraband goods between 2012 and 2016 is estimated to be Birr 1.85 billion (US$ 4.5 million).

The NRA states “In addition to goods, currencies of different countries are smuggled into and out of the country…a total amount of Birr 125.7 million (US$ 5.6 million) were seized and confiscated from which Birr 105.4 (US$ 4.75 million) were to be smuggled out of the country from June 2015 to January 2016.”

Most smuggled are electronics, garments, cosmetics, and armaments
National Risk Assessment - 2016
5.9 Drug Trafficking: Ethiopia has an estimated 464,000 people with illegal drug use disorders (2017), representing 0.5% of the population. The OC Index 2019 has identified drug trafficking, particularly of cannabis as one of the higher scoring drug trafficking activities (score 5/10), followed by cocaine (4/10). Ethiopia is a transit country for cannabis trade to Asia and Western Europe and “Ethiopia is also a transit point for cocaine, heroin and synthetic drugs, in part enabled by corrupt security officials. Although there is no major domestic consumption of these drugs, heroin use is reported to be on the rise, as is domestic supply”.

According to the US CIA World Factbook, Ethiopia, “is a transit hub for heroin originating in South West and South East Asia and destined for Europe, as well as cocaine destined for markets in Southern Africa.” Ethiopia is one of the major producers and exporters of Khat, which is a flowering plant containing an amphetamine-like stimulant, and “is cultivated for local use and regional export, to Djibouti and Somalia (legal in all 3 countries).”

5.10.1 Environmental “Green” Crimes: Illegal Wildlife Trade: According to the International Union of Conservation of Nature (IUCN) and the International Fund for Animal Welfare (IFAW), Ethiopia is a key transit point for illegal wildlife trade from across the Horn of Africa. The country’s main international airport “has been found to be a transit hub for the movement of ivory and rhino horn from Africa to Asian countries mainly China. Ivory from Ethiopia’s elephants and also from neighbouring countries (South Sudan, Sudan, Kenya and Somalia) are illegally trafficked overland in Ethiopia and across its borders. Between 2011 and 2015, more than 700 people were arrested in connection with illegal ivory trafficking. Majority of those arrested at BIA [the airport] were transit passengers with a sizeable number of passengers with their first departure station as Ethiopia.”

Addis Ababa airport is main transit point for cocaine from South America to Europe

INTERPOL

This report identifies that the key originator points of illegal wildlife trade that pass through...
Ethiopia's main airport are Nigeria and Angola, followed by DR Congo, Equatorial Guinea, Ghana and Republic of Congo.

This report, however, concludes that “unlike some neighbouring African countries currently in conflict, there is no evidence of linkages between wildlife trafficking and organised crime/militant groups in Ethiopia using wildlife to generate cash for their criminal activities”.

5.10.2 Environmental “Green” Crimes: Illegal Mining: As with many African countries, Ethiopia experiences illegal mining and smuggling of minerals across borders. Media reports have highlighted that there is an intersection with armed groups in neighbouring countries who are part of these illicit activities. “This usually occurs in regional states close to the border areas. For example, Dima Woreda in Gambela regional state is mentioned as a place where outside groups sell gold illegally”. The Minister of Mining and Petroleum, Dr Samuel Hurkato, is quoted in the media as saying that “The mining sector in Ethiopia is highly exposed to contraband and illegal miners, who are smuggling in illegal warfare weapons with the money. Ethiopia is not only losing millions of dollars to the contraband trade, but there’s also an opening of the road to political conflicts of instability, since the illegal mining money is financing violence”. It is further reported that the main reasons that illegal activity occurs is because of “weak monitoring and security measures taken by the government in all levels of the administration, a high retention rate for successful investors, and that retailers can obtain and renew licenses without obtaining a competency certificate”, all of which encourage unethical operations. Bole International Airport is reportedly used for gold being transported to the UAE, China and India. There have also been allegations that politicians are also “deeply connected in corruption with traditional gold miners”. In addition to dealing with illegal mining and related criminal activity, there have been violent protests against environmental and severe healthcare harms being inflicted by some mines, which resulted in government suspending operations in 2018. According to the US Department of Labour, mines are also known to use child labour.

5.11 Tax Evasion: Tax evasion is, according to the NRA, one of the crimes which presents a high level of threat in Ethiopia, and that, while the tax system is moderately transparent, tax disclosure is estimated to be “medium” or “low”.

The Tax Justice Network does not include Ethiopia in its Financial Secrecy Index.

The GAN Business Anti-Corruption Portal states that in Ethiopia “business report bribes and irregular payments to be common practice when making tax payments and around one in six companies reports expecting to give gifts to tax officials. Likewise, two out of five Ethiopians report having paid a bribe to the tax services.
THE ANSWER TO GLOBAL THREATS CONDITIONED BY CRIMINAL MARKETS
Companies rank tax regulation as a problematic factor for doing business; which, in turn, has impaired investment and economic growth in Ethiopia."

2/5 Ethiopians pay bribes to tax services
GAN Business Anti-Corruption Portal

The FATF 2015 Mutual Evaluation Report (MER)\textsuperscript{35} states, “By all accounts the scale of the informal, unrecorded economy is significant - with some putting the figure at 36% of the recorded economy - and many large transactions are still conducted in cash or through a CPO. Related to that, estimates of tax evasion and tax fraud are substantial. Many small businesses operate without a license and do not collect value added tax (VAT) - many thousands of such businesses alone at Merkato, Africa’s largest open-air market located in Addis Ababa. Though the banking sector and the micro finance sector are expanding at a rapid pace, a very large proportion of the adult population (approximately 72%) remains unbanked, and that portion likely either operates fully in cash or uses illegal (or unlicensed) MVTS providers.”

5.12 Fraud and Illegal ‘Hawala’: The NRA did not specifically address the threat that financial fraud poses as a predicate crime. Instead, it classified all kinds of fraud - e.g. documentary fraud, insurance fraud, fraudulent bankruptcy and others collectively, as one of the major sources of financial crime. In the most recent fiscal year covered by the NRA, (i.e. between July 1, 2015 - June 30, 2016), the study found that bank fraud worth Birr 17,661,540 (US$796,282) was reported to the Central Bank. The NRA highlighted the relatively small role of bank employees in the commission of fraudulent activities in the banking industry.

Illegal hawala, which is unlicensed money transfer service, is identified by the NRA as an important financial crime threat in Ethiopia. Under Ethiopian law, illegal hawala is punishable by a prison sentence of 10 to 15 years. Actors involved in illegal hawala disguise their proceeds by utilising cash or investing in assets such as motor vehicles and real estate. The Ethiopian Financial Intelligence Centre\textsuperscript{36} has reported that as of April 2018, it has investigated and reported to the police 248 cases of illegal hawala activities, of which 29 have been prosecuted and convictions secured.

5.13 Overall Threat Level: According to FCN, the overall FC Threat Level is rated as “Moderate - High” Threat (40/100), ranked 18/40 SSA Countries.
In this Section 6 the focus is on sanctions and terrorism threats.

### 6.1 Sanctions:

There are no international sanctions applied to Ethiopia.

The Peddling Peril Index (PPI), prepared by the Institute for Science and International Security, classifies Ethiopia as a Tier 2 country (moderate threat out of 3), with a low controls score of 374 out of 1,300 and ranks Ethiopia 119th from 200 countries.

The 61 countries that are listed as Tier 2, along with Ethiopia, have serious legislative deficiencies to prevent proliferation financing. Furthermore, the PPI designates Ethiopia’s export control regime as legislation which has serious deficiencies, which is only one level higher than the lowest level rating for the adequacy of legislation to control sanctioned proliferation and financing of WMD. However, Ethiopia has more recently (2019) adopted legislation against proliferation financing.

There are 3 OFAC SDNs and 4 UN sanctioned persons (one individual and three entities and other groups) listed with connections to Ethiopia.

Cuba, North Korea and Iran have embassies in Ethiopia.

North Korea in the World, reported that:

- “During the 1970s and 80s, North Korea provided agricultural, economic, and military aid to Ethiopia, and helped Ethiopia develop a domestic arms manufacturing capability.
- North Korean arms sales to Ethiopia continued through the 1990s and 2000s, and may be ongoing.
- In the wake of expanded UN sanctions, Ethiopia announced in 2017 that it halted work permits for North Korean nationals whose work conflicted with UNSC sanctions.
- In 2017, reported North Korean exports to Ethiopia totalled US$5.2 million (a 139% increase from 2016), while reported Ethiopian exports to North Korea totalled US$924,000.”

### 6.2 Terrorism:

Ethiopia’s location in the Horn of Africa entails higher vulnerability to terrorist threats. Particularly notable terrorism threat arises from the Al-Shabaab (officially ‘Harakat Al-Shabaab Al-Mujaahidiin’) and other Al-Qaeda-affiliated groups largely operating in neighbouring Somalia.

The United Nations Security Council’s Panel of Experts on Somalia has published numerous reports detailing the threat Al-Shabaab poses in the East African region and the ways in which the group finances its operations.
The UN report from November 2019 states that Al-Shabaab remains a “potent threat to regional peace”, as demonstrated by the group’s recent attack in Nairobi, Kenya in January 2019 that killed 21 people.

The UN Panel of Experts report also noted that Al-Shabaab is now able to manufacture its own explosives and has “expansive and well-resourced Al-Shabaab network in the region aimed at kidnapping foreign nationals.”

Another important terrorist group is the ISIL faction in Somalia. The UN Panel of Experts has noted that some members and leaders of the ISIL faction were seen in Ethiopia’s capital, Addis Ababa.

Analysts agree that Ethiopia’s extensive political and military involvement in Somalia, including ongoing active presence of the Ethiopian army in Somalia, both within and outside of the African Union peacekeeping mission, fuels anti-Ethiopian sentiment in Somalia and makes it a major target for these terrorist groups.

Medium high terrorist financing threat
National Risk Assessment - 2016

The NRA recognises the existence of terrorist finance flows in Ethiopia, and rated the threat as “medium high”.

The NRA states that, “the investigations conducted by the Federal Police indicate that the source of finance is associated with individuals residing in USA, Canada, Saudi Arabia, Australia, and Britain. Few of the investigated cases also indicate that money was transferred to Ethiopia through banks as well as international money transfer organisations including Western Union. On the other hand, law enforcement officers suggested that the cash-based economy of the country coupled with Ethiopia’s long porous borders with its neighbours enables terrorist individuals and organisations to easily smuggle cash across borders and transfer money from and/or to members. Most of the terrorists usually used the money to pay for transportation, rent, and other expenses.”

According to the Global Terrorism Index 2019, Ethiopia is ranked 29th highest out of 138 countries and scored 5.345/10 based on the impact of terrorism on the country which is categorised as “Medium” impact.

Ethiopia is a country included in the US Reports on Terrorism 2018. The report confirms that the Ethiopian government remains, “concerned about the prospect of terrorist radicalisation and recruitment, particularly among the large Muslim youth population, and because of the significant economic migration of Ethiopians to the Middle East. Some returning economic migrants have been radicalised.”
Ethiopia Higher (Inherent) Risk Factors

Customer Risks such as:
- Criminal activities such as:
  - Arms Trafficking
  - Smuggling
  - Wildlife Trafficking, Human Trafficking
  - People Smuggling, Fraud
  - Terrorism Finance & along with Corruption (e.g. PEP's) which also helps facilitate these crimes & Tax Evasion as a high risk concern also - NRA

Arms Trafficking (6.5/10)
Human Trafficking (6/10), People Smuggling (6/10), Cannabis (5/10) - OC Index
to Higher Risk Sectors and/or Geography Risks

Banks (in particular Retail and Correspondent Banks), Bureau de-Change, MSB's, and DNFBP's
Informal Sectors
Hawala
Somalia & Eritrea (People Smuggling & Arms Trafficking)
Third Countries
Yemen & Saudi Arabia (People Smuggling)
China & Vietnam (Wildlife Products)

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Section 7 - Money Laundering

In this Section 7, the focus is on Ethiopia's vulnerability to money laundering.

7.1 Higher Risk Areas: Higher risk areas have been identified through the published NRA and from other sources, including those set out in this Country Threat Assessment. In many cases, a single risk factor may not be evidence of actual higher risks, and higher risks may be more likely to arise where a number of risk factors are identified.

Ethiopia is not considered a regional financial centre, nevertheless banks and DNFPBs remain vulnerable to having the proceeds of crime laundered, whilst cash markets, cash smuggling and the informal sectors (including hawala) pose additional concern.

Ethiopia is not considered to be a regional financial centre

For example, the US State Department in its 2016 INCSR reported that, "Due primarily to its underdeveloped financial system and pervasive government controls, Ethiopia is not considered to be a regional financial centre. Although Ethiopia’s location within the Horn of Africa makes it vulnerable to money laundering related activities perpetrated by transnational criminal organisations, terrorists and narcotics trafficking organisations, it’s limited integration in the global financial system, underdeveloped financial institutions, and strict currency controls make it highly unlikely such groups will use the financial sector to launder funds from abroad. Corruption, smuggling, tax fraud and trafficking in narcotics, persons, arms and animal products are the key proceeds generating crimes. As the economy grows and becomes more open Ethiopian law enforcement sources believe bank fraud electronic/computer crime and related money laundering activities could continue to rise. The financial services sector remains closed to foreign investment. However tariffs encourage customs fraud and trade based money laundering. Since strict foreign-exchange controls limit the possession of foreign currency, most of the proceeds of contraband smuggling and other crimes or not laundered through the official banking system, composed of three public banks and 16 private banks. Law-enforcement sources indicate money and value transfer system’s, particularly Hawala, or widely used. The Ethiopian government attempts to monitor informal value transfer networks within the country and has closed a number of illegal Hawala operations."

<table>
<thead>
<tr>
<th>Ethiopia Higher (Inherent) Risk Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Risks</strong></td>
</tr>
<tr>
<td>Customers with elevated exposures to criminal activities such as:</td>
</tr>
<tr>
<td>arms trafficking, smuggling, wildlife &amp; human trafficking &amp; people smuggling, fraud, terrorism &amp; along with corruption (e.g PEPs) which also helps facilitate these crimes &amp; tax evasion as a high risk concern also - NRA</td>
</tr>
<tr>
<td>arms trafficking (6,5/10) human trafficking (6/10), people smuggling (6/10), cannabis (5/10) - OCI</td>
</tr>
<tr>
<td>to higher risk sectors and/ or geography risks</td>
</tr>
<tr>
<td><strong>Sector Risks</strong></td>
</tr>
<tr>
<td>Banks (in particular retail and correspondent banks), Bureau de Change, MSBs, and DNFBPs</td>
</tr>
<tr>
<td>Informal Sectors</td>
</tr>
<tr>
<td>Hawala</td>
</tr>
<tr>
<td><strong>Geography Risks</strong></td>
</tr>
<tr>
<td>Somalia &amp; Eritrea (people smuggling)</td>
</tr>
<tr>
<td>Third Countries</td>
</tr>
<tr>
<td>Yemen &amp; Saudi Arabia (people smuggling)</td>
</tr>
<tr>
<td>China &amp; Vietnam (wildlife products)</td>
</tr>
</tbody>
</table>

US INCSR - 2016
Examples of criminal proceeds that are generated in Ethiopia are through forced labour, smuggling goods across borders, people smuggling, sales of illegal wildlife products, or illicit drugs heading to destination markets such, as in Asia and into Western Europe.

Most of the proceeds of contraband smuggling and other crimes or not laundered through the official banking system

US INCSR - 2016

The amount of funds laundered in Ethiopia will include domestic proceeds, and some proceeds generated in neighbouring countries or overseas (though these will be limited). Domestic proceeds may also be laundered overseas, for example funds from corruption.

Most of the proceeds of contraband smuggling and other crimes or not laundered through the official banking system

US INCSR - 2016

7.2 Cash Based Money Laundering: Ethiopia remains a cash based economy, though this is changing. Much of the day to day, person to person transactional activity occurs via exchange of cash for goods or services, with many areas of the country still unbanked, but increasingly mobile money is becoming more and more popular.

It is therefore still not unusual for relatively large cash transactions to be undertaken, including when purchasing high value assets, such as real estate, vehicles, gold and gems.

The NRA concludes, “Although the country developed a robust legal framework that could prevent criminals from using this sector to launder illicitly generated fund there is weak compliance by real estate agents, brokers and developers. The sector does not carry out yet preventive measures such as CDD and other AML/CFT controls. As a result, money is laundered by criminals who easily buy houses in his/her own name and in the name of family members.”

7.3 Trade Based Money Laundering: Whilst cash based money laundering is therefore the principle and likely most popular method, for laundering funds, trade based money laundering is another. See Section 8 for more details.

7.4 Other Money Laundering: Securities, transaction and virtual currency laundering are not considered significant.
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Section 8 - Illicit Funds including Estimated Criminal Proceeds

In this Section 8, the focus is on Ethiopia's vulnerability to illicit financial flows and illegal proceeds and to the laundering of criminal and other illicit funds.

According to the African Union\textsuperscript{49}, based on work and data provided by GFI, it is estimated that Ethiopia suffered from illicit financial flows from 2004-2013, averaging \textbf{US$2.58 billion} a year, and \textbf{US$433 million} from 2008-2017, according to Global Financial Integrity\textsuperscript{50} (GFI), to have left the country.

Ethiopia has a Tax to GDP ratio of 12.7\%\textsuperscript{51}, which is the 12th lowest in Africa and below the average African figure of 16.2, and rated across Africa as a "Medium" Tax Collection country.

According to GFI, the most common method for transferring illicit financial funds, is through trade mispricing. GFI believe this method or series of techniques may represent up to 80\%\textsuperscript{52} of illicit financial flows, and can involve abusive and or aggressive transfer pricing, trade mis-pricing and mis-invoicing. For example, intentionally overpaying for imports of goods or services (or underpaying for exports or services) is a straightforward way of illegally transferring monies out of a country.

The risks increase in trade with so-called advanced economies. Whilst not all IFFs are made up of criminal activity, a significant proportion will be.

According to the sources and analysis carried out in this Threat Assessment, estimates for criminal proceeds, laundered funds and funds generated by corruption and organised crime, amongst others, are estimated in the following ranges:

- Total estimates for criminal proceeds combined of \textbf{7.5 to 10.5\%} of GDP and with \textbf{10 - 15\%} of this estimated as costs of corruption.

- Total estimates for monies available for laundering through the formal sector is \textbf{40 - 50\%} of criminal proceeds and \textbf{26 - 28\%} involving organised crime, with most significant criminal actors being “Foreign Actors”, closely followed ‘Criminal Networks”, and then by "State Embedded Actors” and “Mafia Style Groups”.

- The largest criminal markets in Ethiopia will include corruption, arms trafficking, fraud, smuggling, human trafficking, people smuggling, tax evasion, and those crimes identified as the largest markets across Sub-Saharan Africa (see Pie Chart above).
Section 9 - Resilience & Response

In this Section 9, the focus is on Ethiopia's level of resilience and response.

Subject to Enhanced Follow-Up
FATF - 2020

9.1 FATF: The FATF mutual evaluation report (MER) for Ethiopia was conducted by the World Bank, and the report was approved by the FATF regional affiliate, the ESAAMLG Council of Ministers, in June 2015. So far, six follow-up reports (FUR) have been undertaken by ESAAMLG, with the latest one published in 2019.

The 6th FUR in 2019 examined the improvements in tackling the technical compliance deficiencies identified in the MER, and progress in implementation of new requirements relating to FATF Recommendations 2, 7 and 8, which have changed since the 2015 MER.

As per the 2015 MER ratings for technical compliance, Ethiopia was placed under the enhanced follow-up procedure. Since then, Ethiopia finalised its first ever NRA in 2016, and adopted a national AML/CFT policy in 2019.

The 2019 6th FUR acknowledged Ethiopia's progress in addressing most of the deficiencies identified in the MER, and re-rated some of the “Technical Compliance” ratings for the country. Consequently, Ethiopia's compliance rating on five recommendations changed: R2 - from Partially Compliant (PC) to Largely Compliant (LC); R7 - from Non-Compliant (NC) to PC; R8 - from PC to LC; R36 - from PC to Compliant (C); and R40 - from NC to PC.

These re-ratings are attributable to several factors including the finalisation of the NRA and the adoption of AML/CFT policy (R2), the enactment of Proclamation 1132/2019, which provides for the prevention and suppression of financing the proliferation of weapons of mass destruction (R7), and amendment of the non-profit organisations (NPO) laws (R8). The remaining PC ratings are, R7 (Targeted Financial Sanctions related to Proliferation),
R24 (Transparency of Beneficial Ownership of Legal Persons), R 32 (Cash Couriers), R 34 (Guidance & Feedback) & R 40 (Other Forms of International Co-operation). There are no NC ratings.

FATF has also identified several important failings that Ethiopia has yet to adequately address. One such failing applies to transparency and beneficial ownership information of legal persons. The 6th FUR identified that Ethiopian law does not require directors of a legal entity to be resident in the country, therefore “there is no guarantee that all companies in Ethiopia have a natural person resident in the country who is authorised by the company to provide information or be accountable to competent authorities”.

In October, 2019, FATF released a statement, that said, “The FATF welcomes Ethiopia’s significant progress in improving its AML/CFT regime and notes that Ethiopia has strengthened the effectiveness of its AML/CFT regime and addressed related technical deficiencies to meet the commitments in its action plan regarding the strategic deficiencies that the FATF identified in February 2017. Ethiopia is therefore no longer subject to the FATF’s monitoring process under its ongoing global AML/CFT compliance process. Ethiopia will continue to work with ESAAMLG to improve further its AML/CFT regime.”

Notwithstanding the removal of Ethiopia from the FATF list, Ethiopia remained in FATF’s enhanced follow-up procedure & will continue to report its progress every two years. Ethiopia was on the EU list of third countries, that are considered by the EU to have strategic deficiencies in their anti-money laundering and counter-terrorist financing frameworks, until removed in 2020.

In 2019, an Ethiopian government statement requested the European Commission to consider removing the country from the list of “high-risk third countries” with weak anti-money laundering and terrorist financing regimes. The statement issued by the Office of the Prime Minister said Ethiopia has been taking important steps to effectively prevent money laundering and terrorist financing since 2018. The statement pointed out that “Ethiopia is vulnerable to bank frauds, cyber-crime and money laundering effectuated by transnational criminals.” The statement noted that a good case in point is Africa’s annual loss in the billions due to corruption and money laundering. “Hence, we would like to call upon the European Commission to take the lead in organising efforts to combat corruption, money laundering, and terrorism financing by taking a stand on unfair practices used by financial institutions globally.”

Based on a simple scoring model developed by FCN, Ethiopia was rated in 2015 as at 50% for “Technical Compliance” and 6% for “Effectiveness”, with an overall average of approx 65% and 30% respectively across more than 80 countries where results have been reported by mid 2019. Ethiopia has improved its scores over time, with a score of 67% following the publication of the 5th follow up report in
2018 and 71% for technical compliance after the 6th follow up report.

Focussing just on core elements of the 40 Recommendations (Key Recommendations : R8 (NPO's) - LC, R10 (CDD) - LC, R12 (PEP) - C, R13 (CBR) - C, R14 (MVTS) - C, R15 (NewTech) - LC, R22 - (DNFPB's CDD) - LC, R26 (FI Supervision) - LC, R28 (DNFPB's Supervision) - LC & R29 (FIU) - LC. Taking these core elements, FCN scores Ethiopia at 70%.

On Effectiveness, Ethiopia received, No “Highs”, 0 “Substantials”, 2 “Moderates” and 9 “Lows.” Key IO results were: IO3 (Supervision) - L, IO4 (Preventative Measures) - L, IO6 (FIU) - L and IO8 (Confiscations) - L. Taking into account these core elements, FCN scores Ethiopia at 0% for effectiveness for these key areas.

9.2 Resilience to Organised Crime: In terms of resilience to financial crime, Ethiopia scored 6/10 in the OC Index which stated that “the government has demonstrated a willingness to tackle organised crime, leading to Ethiopia ranking as one of Africa’s most resilient nations” and ranked 6th out of 54 African countries, and 1st among the 9 East African countries. For most of the resilience indicating factors in the OC Index, Ethiopia scores 7/10 for AML and for International Co operation, & 6/10 for Law Enforcement & Economic & Regulatory Environment.

9.3 Law Enforcement: Ethiopia is a member of Interpol, Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Egmont Group of Financial Intelligence Units, and has signed various treaties on criminal justice and mutual legal assistance/cooperation.

There are some critical gaps in law enforcement's capacity to tackle financial crime, according to the NRA. These include the absence of a risk-based approach application in national AML/CFT policy, the exclusion of certain public and private sectors from the STR or CTR reporting duty, and gaps in the collection and storage of data.

Some critical gaps in law enforcement
National Risk Assessment - 2016

According to the 2015 MER⁶¹, “To a large extent, Ethiopian law enforcement agencies do not have the expertise, resources, or tools that allow them to effectively identify and investigate ML cases. Ethiopia has three agencies with the mandate to investigate ML, including the Federal Police (all predicate crimes), the Federal Ethics and Anti-Corruption Commission (FEACC) (corruption offences), and the Ethiopian Revenue and Customs Authority (ERCA) (tax offences)”. The MER also states that investigations were hampered by low technology and lack of information, and concluded that Ethiopia has a low level of effectiveness for Immediate Outcome 7 (ML Investigation and Prosecution).

The NRA describes the overall assessment of Ethiopia’s combating ability towards financial crime: “Domestic Cooperation, STR data analysis, international cooperation in criminal matter, integrity and independence of presiding officers, the capacity of law enforcement namely financial crime
investigators, asset forfeiture investigators and financial criminal prosecutors are rated medium. Asset forfeiture laws, asset forfeiture orders, international cooperation in asset forfeitures, and auditing and accounting standards and practices are rated medium. Capacity of presiding officers, financial integrity, policy and implementation, tax disclosure, corporate and trust transparency, availability of independent information sources and formalisation of the economy are rated as medium low.”

According to Ethiopian Revenue and Custom’s Authority (ERCA), 3058 tax evasion cases were investigated in the period between 2013 and 2016. After the coming to power of the current Prime Minister in 2018, Ethiopia ramped up its efforts to enforce its tax laws. In February 2019, Ethiopian authorities arrested 105 traders suspected of tax fraud, amounting to 14 billion Ethiopian Birr (approx US$496.5 million). In March 2019, 65 out of the 105 were charged.

9.4 Financial Intelligence Unit: Ethiopia’s FIU (the Financial Intelligence Centre - FIC) joined the Egmont Group in 2019. The FIC has not published statistics and/or reports. There is no Financial Information Sharing Partnership. In the 2015 MER, Immediate Outcome 6 (Financial Intelligence) was rated as low. “Despite some progress in the establishment of the FIC in 2011, financial intelligence is not being effectively used by competent authorities in Ethiopia in their investigations. The fact that the majority of STRs reported and disseminated do not relate to the higher risks in Ethiopia, and various other factors impede the quality of analysis and dissemination and limit the usefulness of the financial intelligence product”.

9.5 Asset seizures: According to the 2015 MER, Ethiopia was considered to have a low level of effectiveness for Immediate Outcome 8 (Confiscations), “Overall, Ethiopia has had few results in terms of freezing & confiscation of the proceeds of crime. The lack of overall guidelines, laws, or policies, has led to approaches that differ by agency with the result that confiscation seems to be more ad hoc.” Statistics dated back to 2013/4 are contained in the MER report by various agencies, but do not exceed more than 1% of crime proceeds.

9.6 Freedom: The Freedom House 2019 Freedom in the World report classified Ethiopia as a “Not Free” country, with a score of 19/100 (where 100 represents most free).

The 2019 score has improved from 12/100 in 2018, and is likely attributable to the pro-democratic reforms introduced by the current Prime Minister Abiy Ahmed, including the release of political prisoners, de-listing political groups that were proscribed as ‘terrorist organisations’, and increasing media freedom.

According to the Heritage Foundation’s 2019 Index of Economic Freedom, Ethiopia’s economic freedom score is 53.6/100, ranking it 137th out of the 170 surveyed countries. This score also represents an improvement.
AUTOMATED AML INVESTIGATIONS

The Caspian AML Investigator platform improves the efficiency of a financial institutions alert investigations team. It replicates expert human decision making and delivers detailed explanations for every investigation in a standardised format mitigating error and consistency risks.

THE PROBLEM

 Typically over 90% of all AML investigations carried out by analysts are closed at level 1. In addition to this, humans process and analyse information slightly differently which can lead to consistency issues and decision errors.

At a time when all industries are under pressure to reduce expenditure, the Caspian AML Investigator, working with a global bank has increased operational efficiencies in AML investigations by over 40% whilst also dramatically improving Quality Assurance.

THE SOLUTION

Manual Analyst Process

Identify & review prior cases
Retrieve customer’s KYC details
Consolidate transaction history
Account review
Identify suspicious tests
Transaction and alerts decision
Write rationale narrative

Approx. 52 min for full analyst investigation

Caspian Automated Process

Gather evidence
Investigate & decide on alerts
Generate Narratives

Closed / QC Review
Escalated

Closed / QC Review
Augmented / escalated

The platform automatically gathers alerts and supporting data, before generating evidence and conducting a detailed risk investigation within seconds. A fully human readable and consistent report including risk factors and recommended decision is produced every time.

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compared to 2018 (52.8/100 and 142/170 in the 2018 survey), driven particularly by significant increases in freedom for business and labour.

The 2019 Global State of Democracy, report published by the International Institute for Democracy and Electoral Assistance (International IDEA) highlights the democratic reform that started in Ethiopia in 2018 as one of the four most prominent advances in the non-democratic part of the world, along with Angola, Central African Republic, and Uzbekistan.

**Reclassified from “Non-Democracy” to “Hybrid Regime”**

International Institute for Democracy and Electoral Assistance

The report has re-classified Ethiopia from ‘non-democracy’ to a ‘hybrid regime’ category.

**9.6 Governance: Mo Ibrahim Foundation**

Governance scores, Ethiopia at 46.5/100 (African average is 49.9) and 35th/54 in Africa, with a “Warning Signs” rating.

**9.7 Basel AML Index:** Ethiopia scores 6.73/10 in the Basel AML Index for 2019, an improvement from 2016 of 7.09/10. Ethiopia is not included in the recently released 2020 Index.
Based on the FCN Sub-Saharan Africa Risk Rating Model, Ethiopia is rated overall at 41/100, with threats at 40/100 “Moderate-High” and Response at 41/100 “Moderate.”

Ranges for individual components are summarised below, with Low Response - RED, Moderate Response - Amber & Higher Response - Green, (see Section 4 for actual ratings). Key component ratings show the progress for FATF MER ratings and for OC Index for Resilience, and over time in the Mo Ibrahim African Governance Index and the Basel AML index are also shown.
Based on this Threat Assessment, the following O&Rs are made as follows:

• The country NRA should be updated and refreshed more frequently so that it remains relevant and up to date and to enable all stakeholders to address current and emerging financial crime risks. The last NRA was published in June 2015.

• Focus on remaining weaknesses revealed by remaining PC ratings from FATF Reports, such as for R7 (Targeted Financial Sanctions related to Proliferation), R24 (Transparency of Beneficial Ownership of Legal Persons), R 32 (Cash Couriers), R 34 (Guidance & Feedback) & R 40 (Other Forms of International Co-operation). The FIU should publish periodic statistics and reports covering its work e.g. STR reports, financial crime risk trends etc.

• Continue to make progress in further improving corruption, freedom, governance & FATF scores over the next years.

• The Ethiopian government would benefit from a review of its current priorities and resourcing to ensure a renewed focus on the main criminal markets particularly arms trafficking, human trafficking, smuggling and wildlife trafficking, tax evasion as well as the fight against terrorism, including by focusing on terrorism finance and corruption.

• Enhance the response of the private sector, and in so doing incentivise an improvement in “preventative measures” by moving beyond current FI / DNFPB assessments based on technical regulatory compliance to one based more broadly on testing effectiveness.

**O & R for Ethiopian Financial Institutions:**
Ethiopian FIs may want to consider whether their AML/CTF/Proliferation Programmes reflect the threats identified and/or if changes or enhancements are needed. Particularly important are exposures to the main threats detailed above.

**O & R for Foreign Financial Institutions:**
Foreign FIs that have exposures to Ethiopia, from outside the country may want to consider the following:

• Ethiopian PEPs would be considered as inherently higher risk, due to high levels of historic corruption in Ethiopia, so FIs should consider EDD+ & heightened monitoring.

• Ethiopia can be considered “Mod - High” FC risk from a Foreign FIs perspective with an “Improving” trend, with more positive TI, governance, freedom & FATF scores.

• Following publication of the 6th Follow up Report in 2019, all core Recommendations are rated either C or LC, such as: R8 (NPOs) - LC, R10 (CDD) - LC, R12 (PEP) - C, R13 (CBR) - C, R14 (MVTS) - C, R15 (NewTech) - LC, R22 - (DNFPBs CDD) - LC, R26 (FI Supervision) - LC, R28 (DNFPBs Supervision) - LC & R29 (FIU) - LC. This should provide Foreign FIs with more comfort in dealing with Ethiopian FIs.
Appendix 1 - Range Matrices by FCN

In Section 8 Illicit funds including “Criminal Proceeds”, estimates for criminal funds in % terms and for “Costs of Corruption”, as well as estimates for “Laundering” and “Organised Crime” are set out.

1. Criminal Proceeds and Corruption: Table A1 below illustrates how the final estimates for “Criminal Proceeds” and “Costs of Corruption” are estimated. By taking the level of “Criminality” in the OC Index 2019, and the score from TI’s Corruption Index 2019, FCN’s overall Country Risk Rating, and based on the aggregate of these 3 sources, a final range estimate for “Criminal Proceeds” can be established. For “Corruption”, the three sources are used, but ranges then depend on the level of corruption based on TI’s Corruption Perception Index 2019 score.

Table A1. Range Matrix for Estimating Criminal Proceeds & Corruption by FCN - 2020 - (Very High Rating is 4, High Rating is 3, Moderate Rating is 2 & Low Rating is 1 - with all scores aggregated for OCI Criminality, TI CPI & FCN Country Score-1)

<table>
<thead>
<tr>
<th>Score</th>
<th>Bottom of the Range % of GDP</th>
<th>Top of the Range % of GDP</th>
<th>Corruption % of Proceeds if Very High Levels (CPI)</th>
<th>Corruption % of Proceeds if High Levels (CPI)</th>
<th>Corruption % of GDP if Moderate Levels (CPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>10.5%</td>
<td>12.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>11</td>
<td>10%</td>
<td>12%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>10</td>
<td>9.5%</td>
<td>11.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>9 (includes a V High)</td>
<td>9%</td>
<td>11%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>9 (No V Highs)</td>
<td>8.5%</td>
<td>11.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>8</td>
<td>8%</td>
<td>11%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>7</td>
<td>7.5%</td>
<td>10.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>6 (includes a High)</td>
<td>7%</td>
<td>10%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>6 (No Highs)</td>
<td>6.5%</td>
<td>9.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>5</td>
<td>6%</td>
<td>9%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>4</td>
<td>5.5%</td>
<td>8.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>3 (includes a Moderate)</td>
<td>5%</td>
<td>8%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>3 (no Moderates)</td>
<td>4.5%</td>
<td>7.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>2</td>
<td>4%</td>
<td>7%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
<tr>
<td>1</td>
<td>3.5%</td>
<td>6.5%</td>
<td>15-20%</td>
<td>10-15%</td>
<td>5%-10%</td>
</tr>
</tbody>
</table>

Note: TI CPI Scores below 50 are rated: 40-49 Moderate to High, 30 to 39, High, below 30 Very High; OCI Criminality Scores are rated: 6 or above at Very High, 5 - 5.9 at High, 4 - 4.9 Moderate and below 4 as Low; FCN Scores are rated: 1-19 - Extremely High, 20 - 29 Very High, 30 - 39 High, 40 - 49 Moderate - High, 50 - 59 Moderate, 60 - 69 Low- Mod, 70 - 79 Low, & 80 - 100. For “Costs of Corruption”, ranges depend on the level of corruption based on TI’s Corruption Perception Index 2019 score. For more details on source information for the OC Index, see HERE⁴⁹, for TI CPI Index see HERE⁷⁰ and for the results for Ethiopia for “Criminality for Corruption” and the FCN Country Risk Rating Score see Section 3 above.
2. **Monies available for Laundering**: Table A2 below illustrates how the final estimates for the range for “Monies available for Laundering” was established. The top of the estimated range is 76% of “Criminal Proceeds”, based on the findings of the UNODC 2011 Study, which found that of US$2.1 trillion estimated global proceeds, that US$1.6 trillion was available for laundering or 76%, and that most of this was expected to be available to be laundered via the formal financial sector. Based on the relatively low levels of financial inclusion in most Sub-Saharan African countries, compared with the rest of the world, and the size of the shadow and informal economies, the estimates available for laundering through the formal financial sector have been assessed with these factors in mind based on the range estimates set out below, from sources estimating bank account and mobile money penetration. **Ethiopia** is rated “Very Low.” For more details on source information on financial access, see HERE71.

![Table A2 Ratings Range Matrix for Laundering by FCN - 2020](image)

3. **Criminal Proceeds Involving Organised Crime**: Table A3 below illustrates how the final estimates for the range for “Criminal Proceeds” involving organised crime was established. The top of the estimated range is 46% of “Criminal Proceeds”, based on the findings of the UNODC 2011 study, which found that of US$2.1 trillion organised crime were involved in US$960 million or approximately 46%. Table A takes the different scores for organised crime in Sub-Saharan African countries reported by the OC Index and presents an estimate, or range as a % of “Criminal Proceeds”, established as set out in Appendix 1 Section 1 above. **Ethiopia** is rated 4.75. For more details on OC information, see HERE72.

![Table A3 Ratings Range Matrix for Involvement by Organised Crime by FCN - 2020](image)
This Country Threat Assessment focuses on the financial crime threats and responses and is both a standalone publication, but can also be read in conjunction with the Global Threat Assessment, published in 2019 and the Sub-Saharan Threat Assessment published in 2020. The Sub-Saharan Threat Assessment has been supplemented by this country threat assessment, as well as for other countries in Sub-Saharan Africa. The individual threat assessments have been co-created with dedicated financial crime fighters from the countries covered, and/or with the help of professionals familiar with the country and the region, based on a consistent approach researching available open source information. Judgement has been applied in deciding what to include and what to emphasise. Each threat assessment follows the same structure and includes the same main sources, usually over 50 sources from important and credible agencies, in the form of reports, papers and or ratings. The threat assessments include the results from the FCN Sub-Saharan Africa 2020 Risk Rating Scorecard which includes a significant number of these sources to aggregate the threats and the responses to derive a final rating and a final ranking.

Author(s) & Editor The Co Authors of this work are John Cusack, Nathanael Tilahun, Eyob Getachew Serba & Netsanet Solomon. The Editor is John Cusack, the publisher is Financial Crime News / Metriqa Limited. All rights remain with FCN/ Metriqa Limited. Special thanks to Ursula M’Crystal for editing this Assessment.

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Information to Note:
The information, provided in this Country Threat Assessment is designed to help those involved in combating financial crime. The Editor (John Cusack) takes responsibility for the contents of this document, including any opinions, observations or recommendations, but does not take responsibility for referenced materials, that are the responsibility of the authors and as appropriate. References are provided for information purposes and do not constitute endorsement of any information. readers should be aware that website references listed may change.