

Anti-money laundering and counter-terrorist financing measures

Ethiopia

8th Enhanced Follow Up Report and
Technical Compliance Re-Rating
April 2021





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ETHIOPIA: EIGHTH ENHANCED FOLLOW-UP REPORT

I. INTRODUCTION

1. The Mutual Evaluation of Ethiopia was conducted by the World Bank and the mutual evaluation report (MER) was approved by the ESAAMLG Council of Ministers on the 5th of June 2015. This follow-up report (FUR) analyses the progress of Ethiopia in addressing the technical compliance deficiencies identified in its MER. Re-ratings are given where sufficient progress has been made. This report also analyses progress made in implementing new requirements relating to FATF Recommendation 15 which has changed since the MER was adopted. In general, countries are expected to have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Ethiopia has made to improve its effectiveness. Progress on improving effectiveness will be analysed as part of a later follow-up assessment.
2. The assessment of Ethiopia's request for TC re-ratings and the preparation of this report were undertaken by the following experts (supported by the ESAAMLG Secretariat: Joseph Jagada and Mofokeng Ramakhala):
 - Zenobia Barry (Namibia)
 - Evans Siziba (Zimbabwe)
 - Susan Mangori (Botswana)
 - Ricardo Jacito Pedro Joao (Angola)
 - Ernest Mosate (Botswana)
 - Motsisi Mongati (Botswana).
3. Section III of this report highlights the progress made by Ethiopia and analysis undertaken by the Reviewers in respect of Recommendations 34 and 15. Section IV sets out the conclusion and a table showing which Recommendations have been recommended for re-rating.

II. FINDINGS OF THE MUTUAL EVALUATION REPORT

4. Ethiopia's ratings for technical compliance¹ are as set out in Table 2.1 below. As a result of these ratings, the country was placed under enhanced follow-up.

¹ There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC) and non-compliant (NC)

Table 2.1: MER Ratings, June 2015

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
NC	PC	LC	LC	LC	NC	NC	PC	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	C	C	PC	LC	C	C	LC	PC	C
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
LC	LC	LC	PC	N/A	LC	C	PC	LC	LC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	PC	PC	PC	LC	PC	LC	LC	LC	NC

III. OVERVIEW OF PROGRESS TO IMPROVE TECHNICAL COMPLIANCE

3.1 Progress in resolving the technical compliance deficiencies identified in the MER/FUR

- Subsequent to the adoption of the MER, Ethiopia submitted its first, second and third request for re-rating and were considered and adopted in September 2018, September 2019 and December 2020, respectively for Recommendations 1, 2, 6, 7, 8, 14, 19, 24, 28, 32, 33, 34 and 36. The Task Force has so far approved the re-rating of Recommendations 1, 2, 6, 7, 8, 14, 19, 28, 33, 36 and 40. These were published on the ESAAMLG website as shown in Table 3.1 below:

Table 3.1: Technical Compliance Ratings, September 2018, September 2019 and December, 2020

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
C	LC	LC	LC	LC	LC	LC	LC	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	C	C	C	LC	C	C	LC	LC	C
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
LC	LC	LC	PC	N/A	LC	C	LC	LC	LC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	PC	LC	PC	LC	C	LC	LC	LC	PC

- This section summarises the progress made by Ethiopia per its request for rerating in respect of Recommendations 34 and 15.

3.1.1 Recommendation 34 (Guidance and Feedback): Originally rated PC- re-rated LC

- Ethiopia was rated PC with R.34. The MER identified the following deficiencies: competent authorities, supervisors and self-regulating bodies (SRBs) had not issued any guidelines; the Financial Intelligence Centre (FIC) had not provided guidance to reporting entities on ML trends and techniques; and, the FIC had not started providing feedback to DNFBPs because they had not yet started reporting STRs.
- In the 6th FUR, Reviewers noted that FIC and the rest of competent authorities had not issued guidelines to FIs and DNFBPs to assist in applying AML/CFT measures apart from guidance on detection of suspicion transactions for FIs. In June 2020, FIC and

National Bank of Ethiopia jointly issued AML/CFT and CPF guidelines to FIs with the aim to assist them to understand and comply with the requirements of the law and obligations imposed on them, among others. In the case of DNFBPs, the FIC issued AML/CFT and CPF guidelines with the objective of assisting DNFBPs in using AML/CFT/CPF measures to combat the crimes. It is submitted therefore, that general guidelines to assist FIs and DNFBPs in applying national measures to combat ML/TF have been established to rectify the outstanding deficiency in regards to guidelines.

9. Furthermore, the 6th FUR also noted that FIC was yet to issue guidelines to DNFBPs similar to the ones issued for FIs for detecting and reporting suspicious transactions. It is noted that the AML/CFT and CPF guidelines issued for DNFBPs do not cater for detection and reporting of suspicious transactions. But in terms of Articles 34 and 35 of Directive 2 of 2016, DNFBPs are directed and guided on how to detect a suspicious transaction and reporting of the same to the FIC. Article 35(7) of the Directive 2/2016 even provides the red flags specific to categories of DNFBPs such as lawyers, accountants, real estate, dealers in precious stones and metals and notaries. Thus, this deficiency has been addressed through Directive 2 of 2016 DNFBPs.
10. Regarding feedback, it was noted during the 6th Follow up Report that FIC continued quarterly meetings with FIs through which it has been providing feedback on their overall compliance functions including STR filing. However, authorities could not indicate the list of entities/sectors from where compliance managers came and therefore it was not possible to determine whether that covered all or most of the reporting entities.
11. The MER also noted that FIC had not started providing feedback to DNFBPs because they had not yet started reporting STRs. In the 6th FUR, it was reported that the FIC had provided feedback to DNFBPs on the examinations it had conducted. However, the authorities have not addressed the deficiency in relation to provision of feedback on suspicious transaction reports. The current FUR does not indicate how authorities have addressed this. This deficiency is thus considered not addressed.
12. Given these minor shortcomings **Ethiopia is re-rated Largely Compliant with Recommendation 34.**

3.2 Progress on Recommendations which have changed since adoption of the MER and previous FUR

3.2.1. Recommendation 15 (New Technologies): Originally rated LC- re-rated to PC

13. Since the adoption of the FUR in 2019, the FATF has amended R.15. This section considers Ethiopia's compliance with criterion 15.1 and the new requirements and its progress to address the technical compliance deficiencies identified in the MER in relation to this Recommendation.

14. The MER had concluded that in respect of c.15.1, Ethiopia did not have requirements to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices. However, FIs and some DNFBPs are required to identify and assess ML/TF risks. The authorities did not provide any new information to determine if this deficiency has ever been addressed. Moreover, it is noted that Ethiopia is currently undertaking a risk assessment on Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs) among other sectors noted and the results of this assessment will assist the country to develop a comprehensive legal framework concerning VAs and VASPs for purposes of R.15.
15. In respect of requirements under c.15.3, Reviewers noted that:
 - (a) As of October 2020, Ethiopia launched a second round NRA which, among others, seeks to identify and assess ML/TF risks emerging from a VA activities and operations of VASPs.
 - (b) Ethiopia does not yet have the basis to prevent or mitigate VAs and VASPs ML/TF risks, because the country is yet to identify and assess the same.
 - (c) Ethiopia has not yet developed the requirements to be complied with by VASPs.
16. But the actions taken so far are not sufficient to meet the requirements of c.15.3. It was also noted that Ethiopia has not yet put in place requirements to meet c.15.4, which among others require licensing of VASPs, nor has the country yet identified natural or legal persons that carry out VASPs activities and does not licence any [c.15.5]. VASPs are not subject to supervision in Ethiopia [c.15.6] and there are no guidelines to assist VASPs to apply national laws to combat ML/TF or to detect suspicious transactions [c.15.7].
17. Furthermore, Ethiopia is not yet in a position to indicate how VASPs that fail to comply with AML/CFT requirements are sanctioned including directors or senior managers [c.15.8] and there are no measures in place to ensure that VASPs comply with Recommendations 10 to 21 [c.15.9].
18. Moreover, Ethiopia has not yet developed mechanisms to communicate targeted financial sanctions to VASPs [15.10], nor has it indicated how it can rapidly provide international cooperation in relation to ML/TF on the basis set out in Recommendations 37 to 40 [c.15.11].

Weighting and conclusion

19. Though Ethiopia is aware of the new requirements introduced in Recommendation 15, the actions taken so far do not warrant the country to meet the requirements of these new measures.
20. **Ethiopia is thus re-rated Partially Compliant with Recommendation 15.**

IV. CONCLUSION

21. Overall, Ethiopia has made sufficient progress in addressing deficiencies in technical compliance identified in its MER to justify re-rating of R. 34 initially rated PC and now re-rated Largely Compliant.
22. Recommendation 15, which was originally rated LC under its MER 2015, has been downgraded from LC to Partially Compliant considering that Ethiopia has not addressed the new requirements of R.15 as set out from c.15.3 to c.15.11.

23. Considering progress made by Ethiopia since the adoption of its MER, its technical compliance with the FATF Recommendations has been revised as shown in Table 4.1, below.

Table 4.1: Technical Compliance Rating April 2021

R.1	R.2	R.3	R.4	R.5	R.6	R.7	R.8	R.9	R.10
C	LC	LC	LC	LC	LC	LC	LC	C	LC
R.11	R.12	R.13	R.14	R.15	R.16	R.17	R.18	R.19	R.20
C	C	C	C	LC PC	C	C	LC	LC	C
R.21	R.22	R.23	R.24	R.25	R.26	R.27	R.28	R.29	R.30
LC	LC	LC	PC	N/A	LC	C	LC	LC	LC
R.31	R.32	R.33	R.34	R.35	R.36	R.37	R.38	R.39	R.40
LC	PC	LC	PC LC	LC	C	LC	LC	LC	PC

24. Ethiopia will remain in enhanced follow-up and will continue to inform the ESAAMLG of the progress made in improving the implementation of its AML/CFT measures two months before each Task Force meeting.